LIETUVOS ENERGIJA

ANNUAL REPORT '08

• 6 February. Lietuvos Energija and Swedish power transmission system operator Svenska Kraftnät completed a feasibility study for the construction of a power interconnection between Lithuanian and Swedish power grids. The study proved that the interconnection between the power systems is feasible and would be economically reasonable in terms of the technical, economical, and legal aspects that had been analysed.

• 12 February. CEOs of electricity transmission system operators Lietuvos Energija and PSE Operator (Poland) signed a shareholder agreement for a joint venture that will implement the interconnection project of Lithuanian and Polish power systems.

• 20 March. The Steering Committee approved the final report on the pre-feasibility study regarding the Synchronous Operation of Baltic Power Systems and UCTE (Union for the Co-ordination of Transmission of Electricity).

• 7 April. Lietuvos Energija, who implemented occupational health and safety management system OHSAS 18001:2007, was awarded the relevant certificate.

• 27 May. Lietuvos Energija became a subsidiary of the national investor LEO LT, AB.

• 30 June. Extraordinary shareholders meeting of Lietuvos Energija approved a new version of the Company's Articles of Association: the Board of Lietuvos Energija became the supreme and permanent governing body of the Company.

• 8 July. Extraordinary shareholders meeting of Lietuvos Energija recalled the existing Board and elected a new Board of the Company. Darius Masionis was appointed Chairman of the Board and General Director of the Company.

• 11 August. LitPol Link, a company that will implement the interconnection project of Lithuanian and Polish power systems, was registered.

• 1 October. AB Lietuvos Energija signed a cooperation agreement with the European Bank for Reconstruction and Development (EBRD). Under the signed agreement the bank extended a grant of EUR 2 million for pre-project work of the power bridge project with Poland.

• 22 October. High voltage equipment testing laboratory of Lietuvos Energija was approved according to the requirements of LST EN ISO/IEC 17025:2006.

• 28 October. Lietuvos Energija completed preparation of the terms of reference for construction of the Alytus – Kruonis double-circuit 330 kV electricity transmission overhead line.

• 4 December. Extraordinary shareholders meeting approved of the preparation of conditions of legal and functional unbundling of Kaunas Hydro Power Plant and Kruonis Pump Storage Plant from Lietuvos Energija. The approval of these conditions is provided for in LEO LT, AB Share Subscription Agreement of May 27, 2008. During the meeting, the shareholders elected a new Board of Lietuvos Energija AB. Darius Masionis, Aldona Jakutienė, Vidmantas Grušas and Mindaugas Jablonskis were elected Board members. Darius Masionis was elected Chairman of the Board.

• 9 December. The Summary of Investigations and Conclusions of the study analysing the feasibility of a possible synchronous coupling of the power systems of the IPS/UPS (synchronous power system of the Baltic States and the CIS) with the UCTE (synchronous power system of West European countries) was presented and endorsed by the study partners during the closing event. Lietuvos Energija was one of the study partners, representing Lithuania as the transmission system operator.

• 12 December. Unit 2 of the Kaunas Hydro Power Plant was recognized as suitable for use. The signing of the relevant certificate marked the completion of the first stage of rehabilitation of the Kaunas Hydro Power Plant.

• 19 December. CEOs of European TSOs from 42 countries met in Brussels and established a new association - ENTSO-E (European Network of Transmission System Operators for Electricity). Darius Masionis, General Director of Lietuvos Energija, was elected to serve on the Board of the association.

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Vision and Mission

Vision

Electricity transmission system operator – leader in reliability and efficiency across the Baltics.

Mission

To ensure reliable transmission of electric power, efficient management of the power system, and transparent market administration.

Lietuvos Energija AB, a public company and subsidiary of the national investment company LEO LT, performs the functions of owner of the 110 - 330 kV power transmission grid, power system operator and market operator. In the performance of these functions, the company is responsible for the:

- maintenance and development of the power transmission grid;
- transmission of electricity from Lithuanian power plants to distribution network companies and major customers;
- ensuring a balance between power generation and power consumption;
- coordination of the operation of the Lithuanian energy system;
- export, import and transit of electricity; and
- organisation of trade in electricity.

Lietuvos Energija is one of the constituent parts in the simultaneously operating power systems of the Baltic States, Russia and Belarus, managing energy flows vitally important to both industry and households. The main purpose of the company is the reliable and efficient transmission of electricity and stability of the power system in Lithuania.

General Manager's Statement

The year 2008 was an extraordinary year full of changes, challenges and rapid pace: a former state-controlled company, Lietuvos Energija became a subsidiary, an integral part of LEO LT, AB – a strategic investor in energy projects. The status, the Articles of Association, and even the philosophy of the company have changed, but our mission – to ensure reliable transmission of electric power, efficient control of the power system, and transparent market administration – remains the same.

We carried out this mission impeccably despite the troubled time of changes: our power supply reliability indicators are among the highest in Europe, exceeding the standards set in some EU Member States by more than 20 times.

In 2008, just as every year, we put forth efforts to develop and modernise the power grid and energy facilities in order to secure the reliable operation of the national power industry. LTL 159.8 million were invested in 2008, which is 5.1% more than in the previous year. Phase I of modernization of the Kaunas hydroelectric station, reconstruction of outdoor switch-gear of 4 transformer substations, and repairs of over 1,000 km of the 110 kV and 330 kV overhead lines were completed.

The international project on the power link between Lithuania and Poland and interconnection with West European power system (UCTE) for synchronous operation are among the most important tasks of the company as part of LEO LT, AB Group. This requires both the modernisation and reinforcement of existing facilities and the construction of new power lines, which will interconnect the Lithuanian and Polish power systems and later – the systems of the European countries.

The year 2008 was of particular importance for Lietuvos Energija as it became a member of ENTSO-E, a new international association of European high-voltage transmission system operators. The association has been formed on the basis of former international organisations as UCTE, ETSO, NORDEL, BALTSO and the UK‘s and Irish associations, which previously had operated as a separate area. ENTSO-E covers the entirety of Europe including non-EU states such as Norway and Switzerland. For Lithuania, the membership means that we are as important as any other European high-voltage system operator. By participating in the activities and management of this organisation we contribute to the formulation of the strategy of the future European high-voltage operator network, the network‘s long-term development plans, and the common network maintenance regulations. We can have our say and can make proposals for the projects that are vital to us, i. e. the links with Poland and Sweden and the interconnection with UCTE.

All these developments have placed our company on a new level. We are becoming increasingly recognised in the EU context, stronger by focussing on our core activities, and more influential in international projects. We are responsible for the future strategic steps of the Lithuanian power industry.

The employees – high-voltage network maintenance and development specialists who are not indifferent to the organisation‘s mission and objectives is the greatest asset of Lietuvos Energija. Competences in the energy field are being developed over the course of many years and the strength of the company lies in its competent personnel.

I do not doubt that Lietuvos Energija is well positioned to become a leader among the Baltic power transmission system operators. Our vision is ambitious but realistic. Lietuvos Energija is a team of professionals, ready to ensure reliable power transmission, efficient management of the power system, and transparent administration of the market.

Let the set objectives inspire us for new major achievements.

Darius Masionis
Chairman of the Board, Chief Executive Officer

The Board

Board Members of Lietuvos Energija AB (left to right):

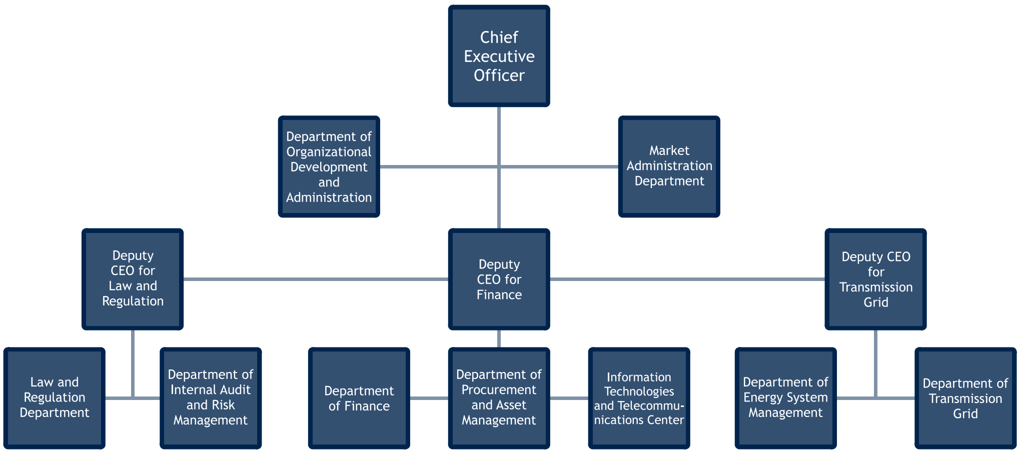
Vidmantas Grušas
Member of the Board, Deputy CEO for Transmission Grid

Aldona Jakutienė
Member of the Board, Deputy CEO for Finance

Mindaugas Jablonskis
Member of the Board, Deputy CEO for Law and Regulation

Darius Masionis
Chairman of the Board, CEO

Organisational Structure



Strategy

In 2008 Lietuvos Energija started over 30 initiatives, part of which has been transformed into projects of different length and complexity. These activities have helped the company to optimise its operations, retain and raise income, develop its strategic projects, and be a socially responsible company that is attentive to its employees and friendly to the environment and the society.

Organisational development project. Objectives: to develop and implement an optimal organisational structure compliant with the EU and national legal requirements thus enabling the company to effectively attain its aims and to organise the management of employee activities as well as employee incentives and development.

Project on the separation of activities. Objectives: to review current business activities and processes of Lietuvos Energija, assess whether they are in line with the new strategy of the company, make an analysis of non-core activities and prepare plans for the separation of such activities, determine and optimise any duplicating functions, and prepare and obtain the Board‘s approval on the optimisation plan.

Project on the reinforcement of procurement function. The project aims at revising the current procurement function and improving the procurement process and supplier management according to best practices so that it complies with the provisions of the Lithuanian legal acts and enables the company to augment its value.

Project on the reinforcement of internal audit and risk management functions. Objectives: to draw up a map of key operational risks of Lietuvos Energija, identify actions in the risk management area, prepare and approve a long-term plan for the internal audit function, make an analysis of reliability and employee safety functions, and prepare a development plan.

Pricing review project. The project aims at establishing a new system of differentiation of the transmission service prices, which is economically sound and linked to the transmission reliability, generation of customers, export and import.

Market administration project. Objectives: to obtain a market operator‘s licence, achieve that the costs incurred in the performance of this function are recognised as the costs of the public service obligations (PSOs) and receive legitimate payment for the services provided to the market, and establish an e-trade system for a transparent hourly trade at the electricity exchange.

Project on the optimisation and increasing efficiency of transport. The project aims at preparing a plan on the optimisation of Lietuvos Energija‘s transport function enabling the cutting of the functional operating costs by at least 30%.

Dispatch function optimisation project. Objectives: increase the efficiency of operations and reduce the number of customer disconnections and disruptions. The project on the optimisation of dispatch functions has speeded up the implementation of the automated dispatch control system and improved the use of its capabilities, the operation has been simplified, arising issues are being solved more effectively, and work efficiency has increased. The implementation of the project involved the formulation of the Strategy for the Optimisation of Dispatch Functions of the Transmission Grid, the drawing up of a detailed plan of organisational and technical measures to optimise the dispatch functions of the transmission grid, and the formation of the dispatch control structure.

Key Indicators

PERFORMANCE INDICATORS (LTL'000)	2008	2007
Income from typical activities	1 455 887	1 111 116
Income from other activities	26 407	22 350
Costs	1 398 545	1 066 589
EBITDA	215 353	211 643
Operating profit	83 749	66 877
Net profit from continued activities	44 911	49 782

BALANCE SHEET INDICATORS (LTL'000)	2008	2007
Assets	3 429 478	2 747 375
Equity capital	2 681 299	2 210 041
Financial liabilities	39 707	89 821
Investments	159 781	151 984
Cash flows from operations	239 435	191 270

FINANCIAL INDICATORS	2008	2007
Return on assets (ROA), %	1.3	1.8
Return on equity (ROE), %	1.7	2.3
Debt to equity ratio, %	27.9	24.3
Financial liabilities to equity ratio, %	1.5	4.1
Equity to assets ratio, %	78.2	80.4
Earnings per share, cents	6.5	7.2

RELIABILITY OF POWER SUPPLY

The main task of Lietuvos Energija AB is to ensure reliable and safe operation of the power system, the transmission of electric power from power plants and neighbouring power systems to the distribution grids and major customers, and transit of electric power between the energy systems.

Transmission Grid Operator

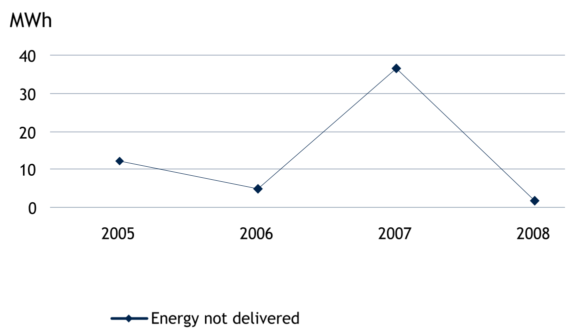
The main task of Lietuvos Energija AB as a transmission grid operator is to ensure the reliable, efficient and safe operation of high voltage transmission grid. The transmission grid operator schedules and organizes operation of power facilities; performs technical maintenance, repairs, metering and tests of high voltage power grid and equipment; removes aftermath of faults and disruptions; keeps technical documentation; observes environmental, fire and labour safety requirements.

Electricity Transmission Quality

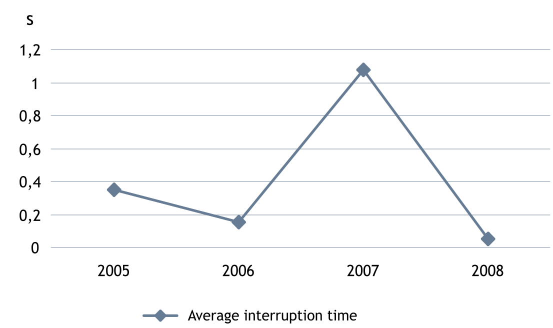
As a transmission system operator, in 2008 Lietuvos Energija AB transmitted 10.1 bn of kWh of electric power for national needs via the high-voltage grids. The power transmission volumes have increased by 3.6 % compared to 2007: to Rytų Skirstomieji Tinklai AB – 4.5 bn kWh (+2 % compared to 2007), to VST AB – 4.3 bn kWh (+2 %), and to eligible customers – 1.2 bn. kWh (+ 4.3 %). Following the slow down in the country‘s economic growth rates, the electricity consumption started decreasing in November 2008.

In 2008 Lietuvos Energija ensured the reliable supply of electricity to its customers and eliminated any failures within the shortest time possible.

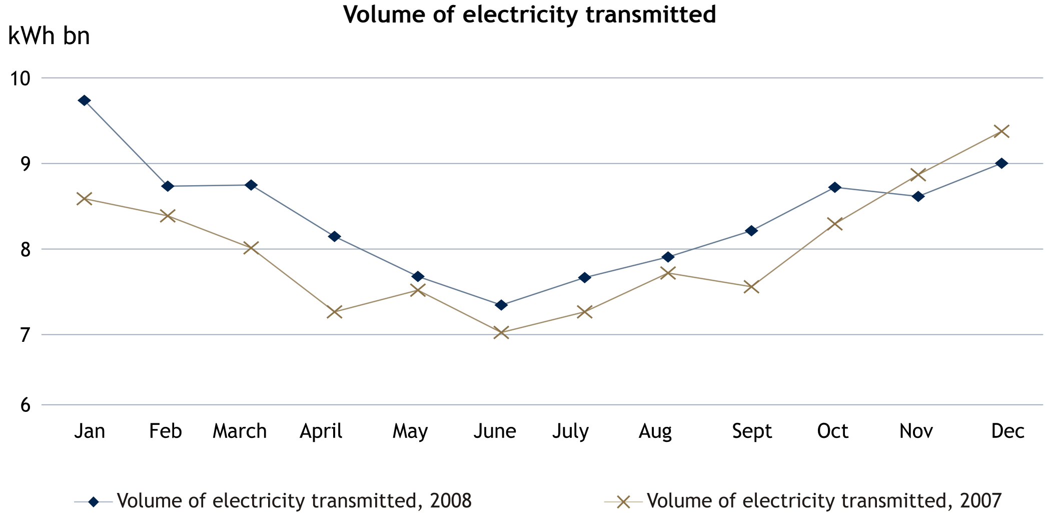
Energy not delivered (END)



Average interruption time (AIT)



Volume of electricity transmitted

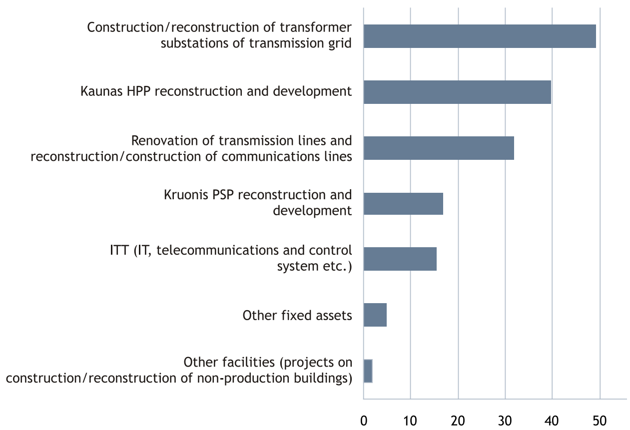


Development and Maintenance of Transmission grid

The larger part of the electricity grid operated by Lietuvos Energija was constructed more than 25-30 years ago, with the service life of the facilities having reached or even exceeded the design term. In order to increase the reliability of the power system, Lietuvos Energija is pursuing a policy of technically and economically sound investments. The company's investments in fixed-asset projects are the funds invested in the reliability of electricity transmission, or investments made in order to earn profit/income or to ensure the performance of the company's functions. In 2008 the company's investments totalled LTL 160 million.

In 2008 the company completed the reconstruction of outdoor switch-gear at 4 transformer substations and repairs of 1 130.21 km of the 110 kV and 330 kV overhead lines including 882.61 km of 110 kV and 247.60 km of 330 kV overhead lines.

Lietuvos Energija AB investments in 2008, LTL m



Main investment areas

- reconstruction of the transmission grid;
- development of the transmission grid;
- reconstruction and development of power plants;
- ITT (IT, telecommunications and control systems, implementation of technologies, computer hardware and software).

Rehabilitation of the 110 kV transmission lines

In 2008 Lietuvos Energija completed the rehabilitation of the 110 kV transmission line Kaunas–Jonava II and Vidiškiai–Skiemonys and carried out works of rehabilitation of the following 110 kV transmission lines: Kaunas–Jonava–Kėdainiai–Panevėžys, Jurbarkas–Raseiniai–Kelmė–Šiauliai, Aleksotas TS–Kaunas HPP and Aleksotas TS–Petrašiūnai PP as well as Šiaurinė–Kino studija and Verkiai–Kino studija.

Rehabilitation and construction of 110 kV transformer substations

In 2008 rehabilitation of two 110/35/10 kV transformer substations (Ukmergės and Gedminų) was completed; Lietuvos Energija also carried out works of rehabilitation of 17 transformer substations including 330/110/10 kV – Vilnius, Panevėžys, Šiauliai and Klaipėda substations, 110/35/10 kV – Šakiai, Pabradė, Naujoji Akmenė and Kuršėnai substations, 110/10 – "Centro", "Nemuno", "Šilko", Noreikiškes, "Miglos", Ignalina, Gargždai, Merkinė and Savitiškis substations, constructed "Ąžuolynės" and "Nemuno" substations (110/10 kV), and carried out preparatory works for the construction of the Šventininkai and Sūdėnai substations.

Construction of 330 kV transmission lines

In 2008 Lietuvos Energija carried out preparatory work for the construction of the following 330 kV transmission lines:

330 kV line Vilnius-"Neris"

A 330 kV overhead line Vilnius–"Neris" (~80 km) is an alternative to the 330 kV line Vilnius-Molodečno as the latter line is to be dismantled by Belarus. Given the potential growth in the demand for electricity in the city of Vilnius by 2020, a third 330 kV substation is indispensable in order to increase the reliability of supply. The most suitable location could be adjacent to the 110 kV Naujoji Vilnia TS; a pre-design study "330 kV Line Vilnius–"Neris" is being conducted in order to determine the exact location of the new transformer substation.

330 kV line Panevėžys-"Mūša"

To increase the reliability of the system's operation a 330 kV line Panevėžys-"Mūšos" TS must be constructed (~ 72 km). The completion of construction will markedly reduce the power transit via the Latvian energy system, which, in turn, will reduce dependence upon neighbouring countries and increase the reliability of the Lithuanian energy system.

330 kV line Klaipėda-Telšiai

The western part of the Lithuanian 330 kV transmission grid is the weakest in terms of reliability. The Klaipėda TS is connected by means of two intersystem lines: Klaipėda-Sovetsk (Russia) and Klaipėda-Grobinia (Latvia). Construction of a new 330 kV line Klaipėda-Telšiai is the only effective solution to help increase reliability. It is intended that the line will be approx. 82 km long. An extension of the Klaipėda and Telšiai TS will be required for this purpose.

330 kV line Kruonis PSP–Alytus

Calculations show that construction of a 330 kV double-circuit line Kruonis–Alytus is required to ensure a 1000 MW power exchange between the Lithuanian and Polish energy systems. It has been estimated that the length of the line could be approx. 53 km.

Reconstruction and development of power plants

The Commission, appointed by State Energy Inspectorate Under the Ministry of Economy recognized Unit 2 of Kaunas hydro power plant as suitable for use. Signing of this act completed the first stage of rehabilitation of Kaunas hydro power plant. During this stage, Units 3 and 4 were installed, tested and commissioned. They include a new model of turbine runner, new excitation and control systems of the units. Moreover, a new fire fighting system has been installed, the lighting grid renovated, new control room and ventilation buildings constructed, hydro insulation of machine room, lifting equipment and switchgear room replaced, cranes reconstructed, fencing of spillway and squares renovated, etc.

The modernisation of the Kaunas HPP was started in the summer of 2005. The value of the project is LTL 125 million including LTL 30 million of the EU assistance under Measure 1.2 "Ensuring of Energy Supply Stability, Accessibility and Increased Efficiency" of the Single Programming Document (SPD).

Almost LTL 78 million were invested in Phase I including the EU assistance amount. The remaining part of investments has been earmarked for the reconstruction of units 1 and 2 in the next phase.

ITT (IT, telecommunications and control systems, implementation of technologies, computer hardware and software)

Completed projects

The Dispatch Control System was updated at the National Dispatch Centre by switching over to the new Oracle-based database management technologies.

Projects underway

Replacement of the main network equipment.

Implementation of the system for the recording of transitional processes taking place in the power system. The project is being implemented and will be completed in 2009.

Accreditation

On 22 October 2008, the High-Voltage Equipment Testing Laboratory of Lietuvos Energija was accredited according to LST EN ISO/IEC 17025:2006. Area of accreditation: instrument transformer testing. The laboratory is the only one in its kind in the Baltic States and among the most modern in Europe.

LIETUVOS NACIONALINIS AKREDITACIJOS BIURAS

Nacionalinis akreditacijos biuras yra Europos akreditacijos organizacijos (EA) Daugiašalių pripažinimo susitarimų signataras kalibravimo ir bandymų laboratorijų, darbuotojų, gaminių, kokybės ir aplinkos apsaugos vadybos sistemų sertifikavimo bei kontrolės įstaigų srityse

AKREDITAVIMO PAŽYMĖJIMAS

Nr. LA.01.092 Galioja iki 2013-10-08

Nacionalinis akreditacijos biuras liudija, kad

AB „Lietuvos energija"
Aukštos įtampos įrenginių bandymų laboratorija
Tiškevičiaus g. 72, LT – 02231 Vilnius

atitinka LST EN ISO/IEC 17025:2005

reikalavimus ir akredituota atlikti

matavimo transformatorių bandymus

Akreditavimo sritis pateikta pažymėjimo priede

Direktorė Irena Mikelionienė

2008-10-08, Vilnius

330/110 kV transmission grid of Lithuania

Transmission grid characteristics

	110 kV	330 kV	Total
Length of overhead lines, km (by circuits)	4973	1670	6643
Length of cable lines, km	36		36
Transformers (units)	4	21	25
Switchgear (units)	214	12	226
Power of transformer substations, MVA	172	3550	3722

Integration

SWEDLIT project. At the meeting of Lietuvos Energija and Svenska Kraftnät (the customers) and SWECO International AB (the consultant) held on 5 February 2008 in Stockholm, the results and final conclusions of a feasibility study “Power Link between Lithuania and Sweden“ were approved.

The feasibility study was conducted in two phases: Phase 1 – initial assessment of feasibility, Phase 2 – detailed technical assessment. It is planned that the Lithuanian and Swedish energy systems will be interconnected by a 350 km 700-1000 MW direct-current cable laid on the bottom of the Baltic Sea. Depending on the selected cable technology and power, the investments in the intersystem interconnection would amount to EUR 516-637 million.

At the beginning of 2008, a feasibility study on the **Synchronous Interconnection between Baltic States and UCTE grid** was completed. The study was conducted by four transmission system operators: Lietuvos Energija, OÜ Põhivõrk (Estonia), AS Augstsprieguma Tikls (Latvia) and PSE-Operator S.A. (Poland). The study has established the estimated synchronous interconnection costs and the time Schedule. The synchronous interconnection is only possible upon construction of the alternating current interconnections between Lithuania and Poland. The study lists the works to be done as part of the analysis of the opportunities for the synchronous interconnection including the detailed calculations of dynamic and static stability of the energy systems and the estimation of the costs of disconnecting from the Russian and Belarusian grids.

Regional planning. The study “BALTSO-NORDEL-PSE Operator Multi-Regional Planning“ (originally “Market based analysis of interconnections between Nordic, Baltic and Poland areas in 2025“) was completed in 2008 by TSOs - cooperation partners Lietuvos Energija, OÜ Põhivõrk (Estonia), AS Augstsprieguma Tikls (Latvia), PSE-Operator S.A. (Poland), Svenska Kraftät (Sweden) and Fingrid Oy (Finland). The purpose of the study was to assess the socio-economic benefits of the planned interconnections in the Baltic Sea Region between Lithuania and Poland, between Lithuania/Latvia and Sweden, and the second interconnection between Estonia and Finland.

UCTE-IPS/UPS Synchronous Interconnection Study. The feasibility study on the synchronous interconnection of UCTE and IPS/UPS was completed on 5 December 2008. The main purpose of the study was to determine the feasibility of synchronous operation of Europe‘s two largest integrated energy systems – UCTE and IPS/UPS. The study was conducted by a consortium of seven energy companies participating in the IPS/UPS (Belenergo, Eesti Energija, Latvenergo, Lietuvos Energija AB, Ukrenergo, Moldelektrika, RAO JES Central Dispatch Board) and eleven TSOs representing nine UCTE countries (Germany, Belgium, Hungary, Bulgaria, Poland, Spain, France, Slovakia and Romania). A comprehensive evaluation of the system reliability and market aspects has led to conclusions emphasising the complexity and outlining the long-term prospects of the interconnection. The interconnection of UCTE and IPS/UPS systems via direct current links has been recommended as a medium-term alternative.

Power System Operator

The Lithuanian energy system consists of power plants that generate electricity, the electricity transmission grid, the lines of which transport electricity across long distances, and the electricity distribution networks, the lines of which deliver the electricity from transmission grid and small power plants to consumers. The operation of the plants and grid requires continuous real-time coordination as the amount of electricity generated and transmitted at any given time must correspond to the needs of the customers connected to the grid. These functions are performed by Lietuvos Energija as the power system operator.

Improvement of Control

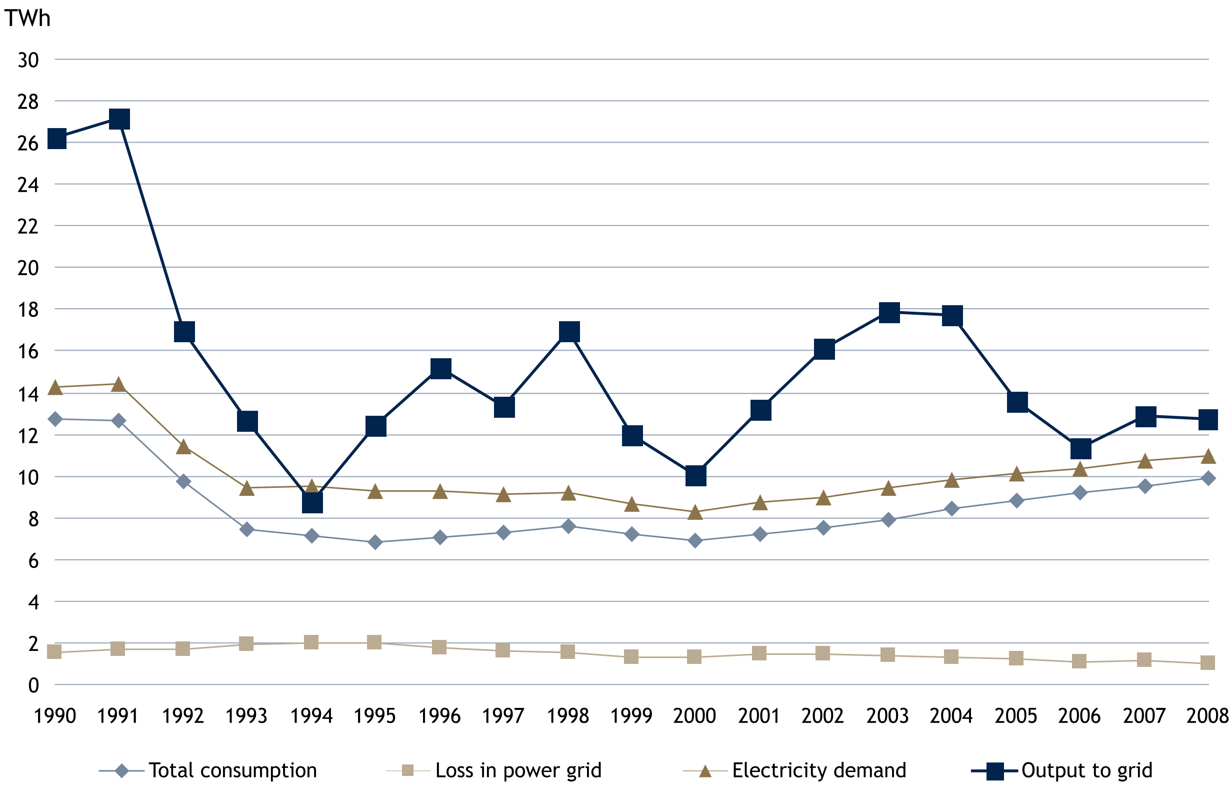
In 2008 Lietuvos Energija updated the dynamic model for the calculation of conditions of the Lithuanian electrical power system seeking to assess the effects of potential system disruptions and failures on the reliability of the system. Furthermore, the company started implementing the automated energy system balance control system using the generators of the Kruonis PSP and the Lietuvos Elektrinė; in order to minimise errors in the balance planning, an analysis of the generation forecasting systems of the wind parks was made, followed by an assessment of the feasibility of implementing such systems.

Cross-border electricity exchanges

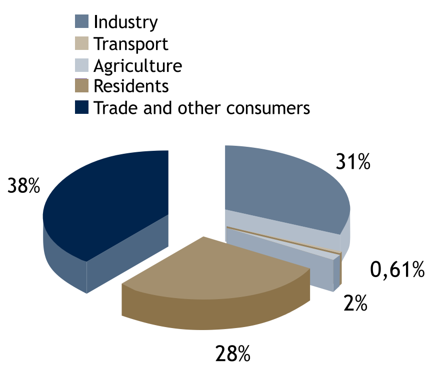
System Balance

The amount of electrical power received to Lietuvos Energija's transmission grid in 2008 totalled 13.99 bn kWh including 12.3 bn supplied by the power plants of Lithuania and 1.69 bn received from the energy systems of other countries. Out of this amount, 8.92 bn kWh were delivered to the distribution networks, 1.26 bn kWh – to customers connected to the transmission grid, 2.64 bn kWh – to the energy systems of other countries, and 0.82 bn kWh – for the charging of the Kruonis PSP; the remaining amount, i. e. 0.35 bn kWh consists of the production costs and own needs of the transmission grid.

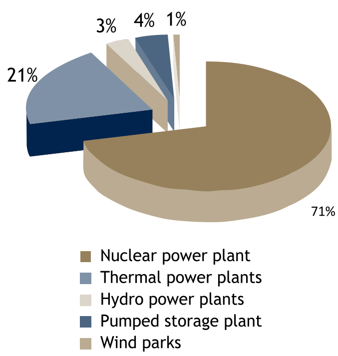
Dynamics of electricity balance in Lithuania



Electricity consumption in 2008



Electricity generation in 2008



Strategic Projects

Integration of the Lithuanian energy system into the common electricity market of Europe and the development of regional cooperation are among the main tasks of Lietuvos Energija.

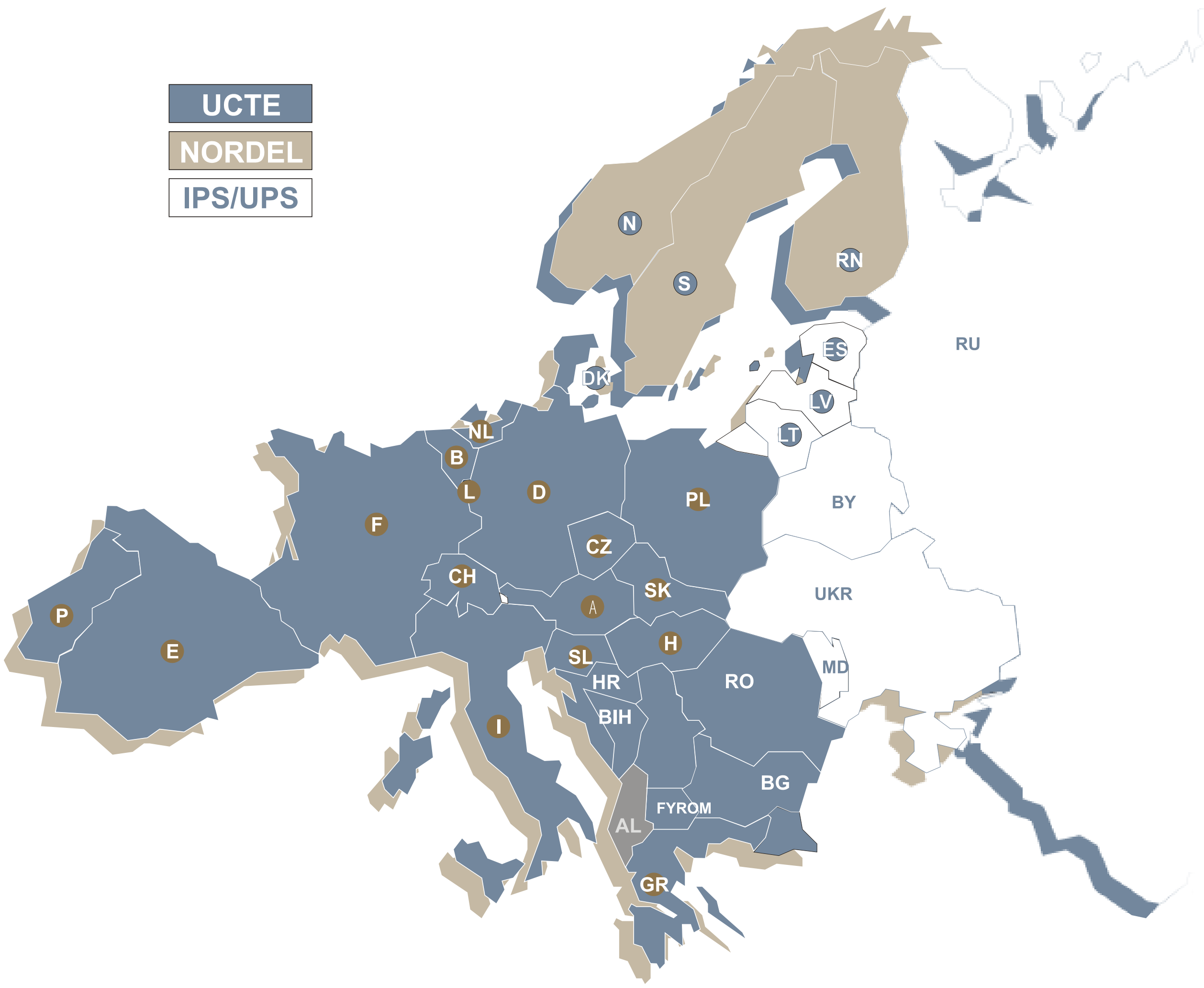
The priorities of Lietuvos Energija as stated in the National Energy Strategy of the Republic of Lithuania include the synchronous interconnection of the Baltic energy systems with UCTE (Union for the Co-ordination of Transmission of Electricity comprising Western and Central European countries) grid and power bridge to Poland ensuring the independence of power supply in the region.

Interconnection with UCTE forms part of the National Energy Strategy and its implementation requires a power link to at least one of the UCTE members as well as meeting the requirements set for synchronous operation.

Main tasks and benefits of UCTE:

- integration of the Baltic systems into the energy systems of the EU Member States;
- securing energy supply to the Baltic Region; and
- better use of power resources both in the Baltic States and UCTE.

Establishing a power link between Lithuania and Poland is the first step towards the systems‘ synchronisation. This project has been included in the list of strategic projects of the European Commission.



Synchronous zones of European power systems

UCTE in 2008

On 20 March 2008, a preliminary report of the feasibility study on the interconnection with UCTE was approved. According to the estimations, investments in the related energy infrastructure projects would amount to approx. EUR 2.5 bn. The study was prepared by the TSOs: Lietuvos Energija, Augstsprieguma Tikls (Latvia), Pohivork (Estonia) and PSE-Operator (Poland). The expected date of implementation of Phase I of the systems‘ interconnection – 2015.

In April 2008, the main conclusions of the feasibility study on UCTE-IPS/UPS synchronous interconnection were published: the UCTE and IPS/UPS synchronous interconnection is feasible subject to the implementation of the requisite technical, operational and organisational measures and establishment of the relevant legal framework.

Implementation of an asynchronous interconnection operating through a direct-current link between Lithuania and Poland is the first step towards the systems‘ synchronisation. It is indispensable for the synchronous operation of the energy systems that, in case of stopping of the largest generating unit or disruption in the link with the NORDEL system, the transfer capability of the links between the Baltic States and UCTE is larger than the lost power. At least three 400 kV lines must be built between the Baltic energy systems and UCTE.

The conclusions state that further analysis should be made under the guidance of UCTE and should involve an assessment of the planned changes in the Baltic energy systems and UCTE upon the systems‘ interconnection for synchronous operation.

On 9 December 2008, the Summary of Investigations and Conclusions of the feasibility study on UCTE-IPS/UPS synchronous interconnection was published upon approval by the study partners including Lietuvos Energija as a TSO representing Lithuania. Launched in April 2004, the project had involved investigations into technical, organisational and legal aspects of the systems‘ synchronous operation. The synchronous interconnection would establish a unique transmission system serving over 700 million customers and covering ten time zones.

The final conclusions of the study emphasise the comprehensiveness of the synchronous interconnection in ensuring the security and market aspects of both systems. In the medium-term, the interconnection using high-voltage direct current links is considered to be an alternative for the interconnection between IPS/UPS and UCTE.

As representatives of the Lithuanian energy system, Lietuvos Energija‘s experts took an active part in all the main working groups of the study which examined the power flows in the transmission grids and made the computations of dynamic stability. The Lithuanian experts prepared data for the computational model, analysed the computation results, and took part in the discussions of results.

Progress of the Lithuanian-Polish power link project in 2008

The purpose of the project is to interconnect the energy systems of Lithuania and Poland in order to integrate the Lithuanian electrical energy system into the EU energy area and to contribute to the attainment of the EU‘s strategic objective – to create a common electricity market.

The Lithuanian-Polish link project is implemented by LitPol Link, a company formed in May 2008. It is owned, in equal parts, by Lietuvos Energija and a Polish energy company PSE-Operator. The company was officially registered in the National Court Register of the Republic of Poland on 11 August 2008.

The Lithuanian and Polish energy systems will be linked by means of a 400 kV double-circuit line with the total capacity of 1000 MW. 2x500 MW direct current converters will be constructed in order to interconnect the energy systems with different current frequencies and to manage the power flows. It is estimated that investments in the project will total EUR 237 million.

Under the shareholders‘ agreement LitPol Link will have to prepare a technical project, reach agreements on the line routes in Lithuania and Poland, carry out the environmental impact assessments, resolve the issues related to land ownership, permits and licences, and carry out other preparatory works.

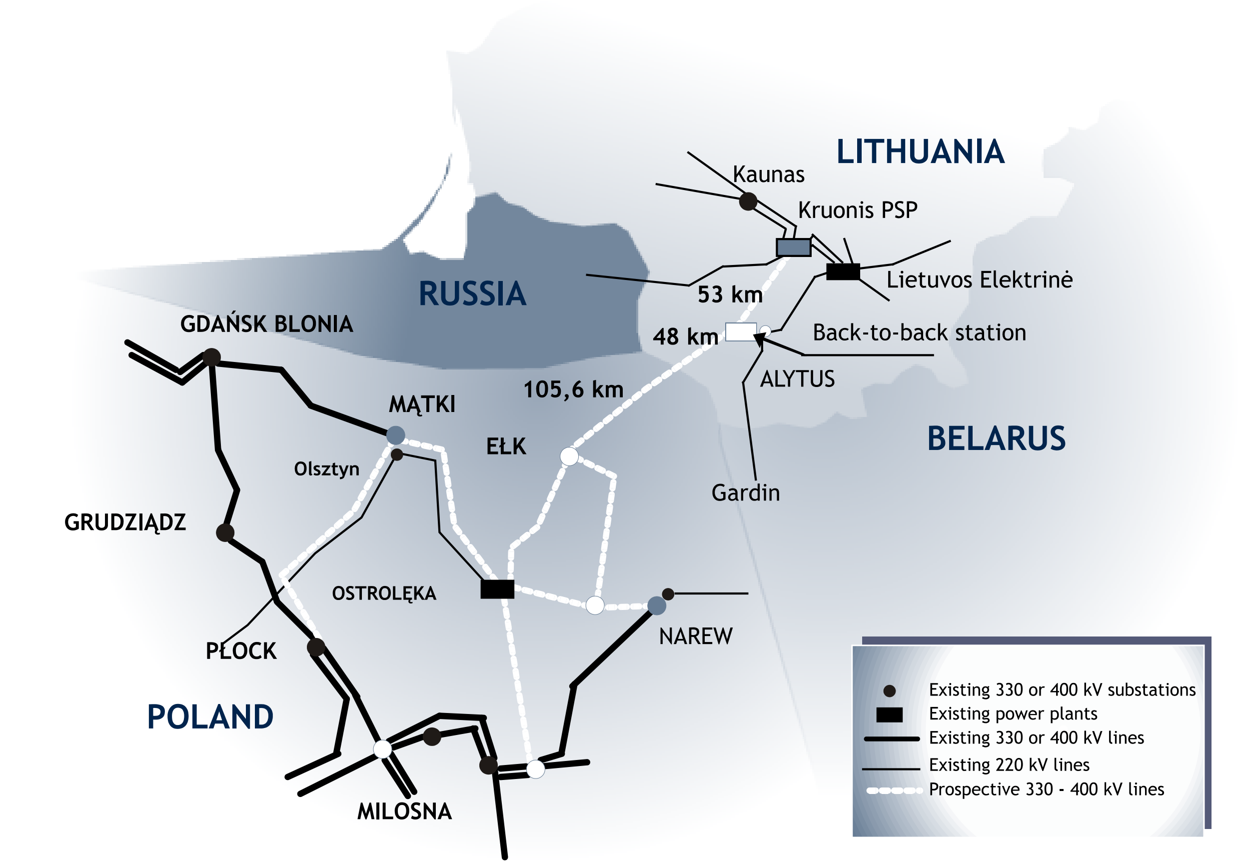
The shareholders have agreed that the preparatory works will be completed and the decision on the project‘s implementation will be adopted by the end of QI of 2010.

Cooperation

Management of the electric power system requires constant cooperation and coordination of activities of the Latvian, Estonian, Belorussian and Russian TSOs working in parallel. Therefore, Lietuvos Energija's experts take part, on a regular basis, in the work of the committee on the technical coordination of parallel work of the Belarusian, Russian, Estonian, Latvian and Lithuanian TSOs. There are eight working groups engaged in the coordination of issues of the energy systems' development, electric power transit, emergency power reserves, information technologies, failure prevention automation, operational planning and management.

In addition, the dispatch centres of the TSOs of the three Baltic States coordinate work among themselves. For this purpose, a non-profit organisation BALTSO (Baltic Transmission System Operators) has been established, the task of which is to address issues of coordination of the parallel work of the Baltic energy systems. Three standing BALTSO working groups are responsible for the coordination of the energy systems' development, IT, operational planning and management issues.

On 19 December 2008, a new association was established by CEOs of the European companies performing the functions of transmission system operators in 42 countries – the European Network of Transmission System Operators for Electricity (ENTSO-E). Darius Masionis, CEO of Lietuvos Energija, was elected member of the board of the association. The activities of all the European electrical power associations will be transferred to ENTSO-E by mid-2009.



Prospective power interconection Lithuania – Poland

OPEN MARKET

The freedom of customers to select an electricity supplier and prices lies in the essence of the electricity market. The aim is to enable competition and efficient management of the electrical power facilities. Formerly a state-controlled monopoly, but after the Law on Electricity came into effect on 1 January 2002, the Lithuanian electrical power sector is becoming a market-driven system where choices of a supplier are based on service quality and attractive electricity prices.

Electricity Market

The electricity market consists of:

- the wholesale electricity market as a place for trade among suppliers and producers; and
- the retail electricity market as a place for trade among customers and suppliers.

In the wholesale market, trade in electricity is conducted through direct bilateral sale-purchase agreements between electricity producers and suppliers. Any deficient amount of electricity can be bought or excess electricity can be sold at an exchange. Trade in electricity in a retail electricity market is conducted by conclusion of direct bilateral sale-purchase agreements between customers and suppliers freely selected by them.

Undertakings holding a licence of a public or independent supplier or a permit to generate, export or import electric power can participate in the wholesale electricity market. All the market participants are registered by a market operator, with the relations among them governed by the rules for trade in electricity. A participant in the wholesale market is also considered a transmission system operator (TSO).

In its capacity of a TSO, Lietuvos Energija AB performs the national balancing function which includes the matching of the power generation volumes with amounts specified by producers and suppliers and the coordination of actions by the dispatch centres of power generators.

Public suppliers (Rytų Skirstomieji Tinklai AB, VST AB and Visagino Energija VĮ) supply electricity at the approved tariff rates to consumers who do not wish to choose another supplier, while independent suppliers deliver electricity to eligible customers at contractual prices.

All customers in Lithuania are recognised as eligible customers from 1 July 2007. Eligible customers are free to choose an electricity supplier for any amount of energy at an agreed price. They can buy electricity directly from independent suppliers at a contractual price or from public suppliers (Rytų Skirstomieji Tinklai AB or VST AB) at prices approved by the National Control Commission for Prices and Energy.

Activities of Market Operator

Lietuvos Energija AB as the only operator responsible for the administration of the electricity market in Lithuania:

- effects the registration of bilateral agreements between participants in the wholesale market;
- collects bids for electricity trade at the auction and sets the sequence of sales;
- records transactions completed under the bilateral agreements and at an exchange;
- presents the results of electricity trade to market participants and regulatory bodies.

Trade in electricity is conducted in the domestic market and by exporting and importing electricity. In Lithuania, trade in electricity is conducted:

- in the wholesale market under bilateral sale-purchase agreements concluded by electricity producers and suppliers which can purchase additional amounts or sell excess amounts of electricity at an exchange;
- in the retail market under bilateral sale-purchase agreements concluded by final customers and suppliers.

In 2008 the following types of energy were traded in the national wholesale market:

- contractual electricity under bilateral sale-purchase agreements concluded by electricity producers and suppliers;
- additional electricity sold at the producers‘ exchange (in cases where contractual electricity is not sufficient to meet the national needs).

The amount of electricity bought by suppliers in the Lithuania‘s wholesale market in 2008 has increased by 5.3% compared with 2007. Out of total amount of 11.3 bn kWh, 6.9 bn kWh were bought from producers under bilateral agreements and 4.4 bn kWh were bought additionally at the exchange managed by the market operator.

Ten companies – licensed suppliers and twelve companies holding a permit to produce electricity were actively trading in the wholesale electricity market in 2008. The Ignalina nuclear power plant sold the largest amount of electricity under bilateral agreements (7 bn kWh), while the largest amounts purchased were those by the distribution companies - Rytų Skirstomieji Tinklai AB (4.6 bn kWh) and VST AB (4.4 bn kWh).

The major consumers, directly connected to the transmission grid, are already trading within the free electricity market. The demand of such consumers in 2008 accounted for 1.2 TWh or 12 % of domestic demand.

Electricity Export And Import

Lietuvos Energija holds termless permits to generate, import and export electricity. The company seeks to optimise its export structure and to increase benefits at lower cost. In 2008 Lietuvos Energija sold 2.37 bn kWh of electricity for export.

Due to growing domestic demand, the amount sold by the company for export has decreased by 3.7% compared to 2007. 1.68 bn kWh of electricity was imported from other countries in 2008. Due to prolonged period of repairs of the Ignalina nuclear power plant, the imports have increased by more than 43% compared to 2007.

ADVANCED TECHNOLOGIES

Information Technologies and Telecommunications

Lietuvos Energija AB operates a telecommunications network the capacities of which are primarily used to meet the transmission system operator's own needs and which is being expanded. The company provides information technology and telecommunications (ITT) services to customers. Despite strong competition in the market for these services, there has been an increase in the company's ITT service sales recently; the company optimised the ITT service sale structure in 2008.

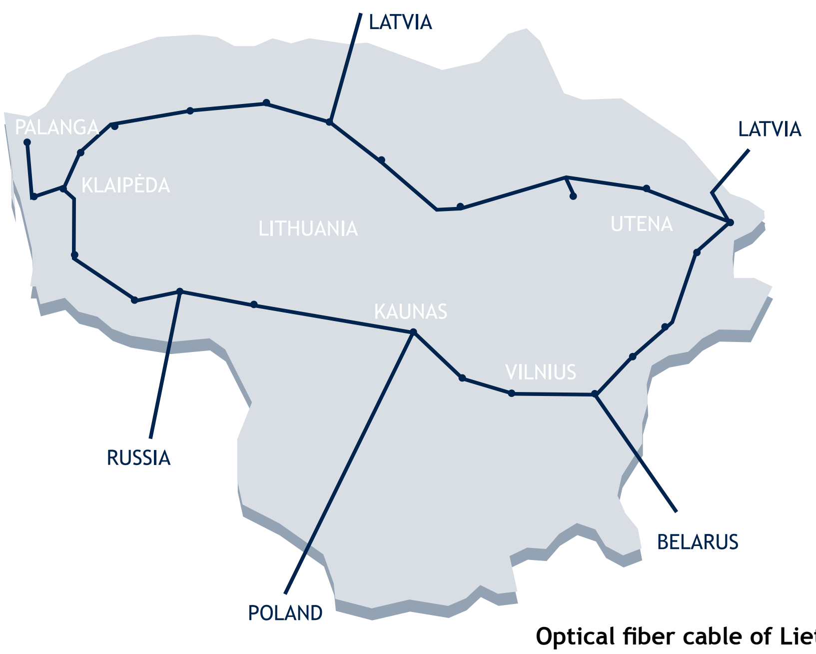
Lietuvos Energija, acting jointly with the Estonian and Latvian energy companies, was awarded a contract in the GIANT 2 tendering procedure for the supply of the 10 Gbit/s services among the cities of Tallinn, Riga, Kaunas and Poznan for the academic networks of Europe. The new-generation DWDM-based (Dense Wavelength Division Multiplexing)data transmission grid was established at the end of 2008. The network enables the provision of the 10 Gbit/s services in Lithuania, while the available optical interconnections with the neighbouring countries afford the opportunity to reach major data interchange centres in Frankfurt, Stockholm, Warsaw and other cities.

In 2008, the project on the modernisation of the dispatch control system was completed; in addition, the Dispatch Centre IS covering the operational planning, system reliability assessment and part of the operational management processes was developed and implemented. To improve the management of dispatch applications, an integration module enabling the information exchange between the dispatch application systems of Lietuvos Energija and Rytų Skirstomieji Tinklai has been developed.

131 km of optical fibre cables were laid, 12 substations were connected to Lietuvos Energija's fibre optic networks and 11 substations to the company's telecommunications network in 2008. Six telecommunications node dispatch control, teleinformation, commercial flow readings and substation control systems were implemented; the video monitoring system network was expanded at six substations.

In order to secure convenient work in the common data transmission grid for Lietuvos Energija AB and other companies of LEO LT, AB Group, virtual private networks have been established for each company. The MS Exchange system enabling an effective access to electronic mail, time schedules, contacts etc. from any location has been implemented for improved staff communication purposes. The new system allows better allocation of working time and facilitates organisational and resource management.

In 2008 the company continued to successfully develop its data centre business by increasing the capacities and modernising the equipment at the data centres. Several major long-term service agreements were concluded with financial and web-solution companies.



Optical fiber cable of Lietuvos Energija AB

SOCIAL RESPONSIBILITY

Lietuvos Energija is fostering the social responsibility tradition in all the relevant areas: in relations with employees, the public and the environment. The company's business relies upon a balance of economic, ethical and environmental dimensions.

Employees

The changes that took place in Lietuvos Energija in 2008 affected all employees of the company. The review of business activities and functions, the abandoning of certain non-core activities, and changing the organisation of work enabled the company to find reserves for performing a larger number of functions with a smaller number of employees.

Lietuvos Energija had 967 employees as of the end of 2008. Approx. 65% of the employees were engaged in the core technical and production activities and 21% in non-core and supporting activities. Managers accounted for approx. 14% of the employees, including 1.2% - top management and 6% - medium-level management.

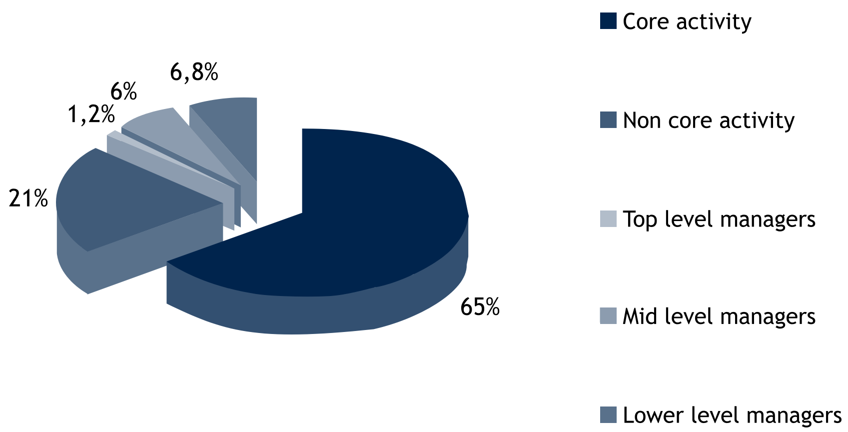
The organisational structure of the company has been changing in the horizontal direction. Nine departments were formed out of numerous divisions reporting directly to the CEO. Internal structure of the departments was changed further upon reviewing business activities and functions.

There have been changes in the corporate management: a new board was formed. Since July 2008 the company is headed by CEO Darius Masionis. The new management has focussed attention on the implementation of modern management principles and reinforcement of budgeting and planning processes.

Much stricter and enhanced requirements for general, financial, and managerial competences have resulted in certain personnel changes in the units of non-core/supporting activities.

63% of employees of the company (including branches) are white-collar workers and 37% are blue-collar workers. Over 53% of the employees are persons with higher education. The average age of employees is 45; the average record of service at the company is approx. 15 years.

Distribution of personnel by types of activities



Qualifications

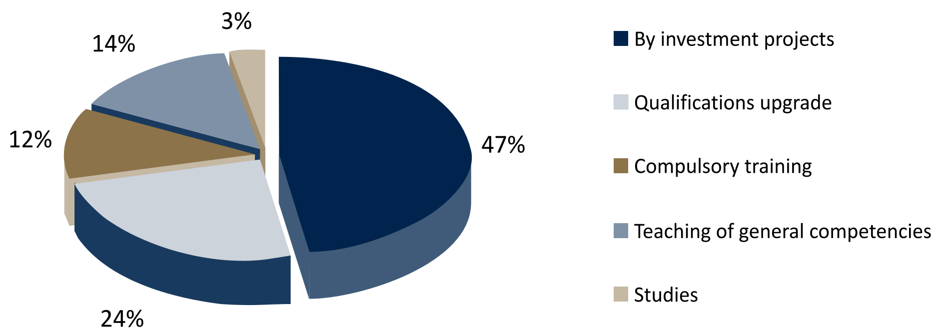
The continuous and systematic improvement of the skills of the personnel is an essential factor enabling the company to attain its objectives. The process of developing Lietuvos Energija's employees takes place in the following four directions:

1. mandatory training (certification, examinations, courses at the end of which authorisations/permits to perform certain works are issued);
2. improvement of professional skills (training aimed at maintaining and refreshing vocational-technical/ technological competences related to the modernisation of equipment, change in technologies etc.);
3. improvement of personal and business competences (workshops dealing with communication improvement, leadership development, improvement of managerial skills);
4. training in the use of new equipment and technologies required in the implementation of investment projects.

In 2008, nearly LTL 1.63 m were allotted for the improvement of employee skills (including over LTL 0.7m for the improvement of professional qualifications and mandatory training). The company's specialists were afforded the opportunity to acquire experience at foreign energy companies and to improve skills in investment projects. The company financed studies at higher educational establishments for 14 employees.

In the second half of 2008, the company launched 19 projects in different fields including organisational development, reinforcement of procurement functions, separation of business activities, network development, budgeting development, pricing review, etc. The majority of the company's employees have been involved in these projects in parallel to their direct responsibilities. This is an opportunity for them both to take an active part in the optimisation of corporate processes and to show personal initiative and develop. The company maintains and develops social dialogue and implements all the provisions of the collective agreement.

Funds allotted for training in 2008



Health and Safety at Work

On 1 April 2008, Lietuvos Energija was issued a certificate of the occupational health and safety management system according to OHSAS 18001:2007/LST 1977:2008. The certificate testifies to the attention that the company devotes to health and safety at work. It means both the appreciation of achievements and the obligation of the company.

It is very important to listen to the employees‘ opinions, to know their needs and expectations. Therefore, a survey was conducted in order to learn the employees‘ opinions on the efficiency and importance of the occupational health and safety measures implemented by the company.

Lietuvos Energija traditionally organises Safety at Work Days, during which compliance with the health and safety at work regulations is checked in all the divisions with the participation of the representatives of the administration. Safety at Work Days 2008 was focussed on the reduction of the effects of hazardous chemical substances on the employees‘ health.

New hazards arise along with the implementation of new technologies. The company has always paid much attention to employee training including the making of instructional films and the preparation of methodological training materials. In 2008, training materials on the safe operation of electrical equipment filled with sulphur hexafluoride gas were prepared.

The occupational medicine unit of the company is responsible for the provision of first aid and preventive work – it administers massage, vitamin therapy and therapy to strengthen the immune system, provides consulting on occupational hygiene and medicine issues, carries out health checks of newly hired employees, and organises mandatory health checks of the company‘s employees.

Environmental Protection

In its operations, Lietuvos Energija follows an approach that development of a company is only possible in harmony with the environment surrounding it. In developing its operations, Lietuvos Energija seeks to use natural resources economically, to implement advanced environmentally friendly technologies, to comply with the environmental protection regulations and to apply preventive measures to minimise the negative impact upon the environment.

Waste management

The company has arrangements in place for the collection and sorting of waste generated in its operations and for the transfer of the waste to waste managers – the enterprises holding waste management licenses. The main types of hazardous waste generated in Lietuvos Energija‘s activities: transformer oils and substances related to their use (wastewater contaminated with oils, sludge contaminated with petroleum products accumulated in wastewater treatment facilities, oil waste not fit for use, compressor oils and water emulsion, absorbents and cloths contaminated with oils, accumulators, luminescent lamps, tyres, etc.).

In 2008, the following quantities of waste were transferred for recycling: 77 t of hazardous waste, 43 t of reinforced concrete and porcelain insulators (used in road-building upon recycling), 314 t of ferrous metal waste and 10 t of non-ferrous metal waste.

Wastewater treatment

Lietuvos Energija conducts the monitoring of compliance of the permanent pollution sources (wastewater) with the standards set in the Prevention and Control Permit and in the Wastewater Management Regulations. Maintenance of stormwater and domestic wastewater treatment facilities is carried out on a regular basis (including filter regeneration and replacement, removal of sludge etc.) by external service providers hired by the company.

In 2008, new stormwater treatment facilities (capacity 3 l/s) were put into operation at the Vilnius transformer substation.

Preventive measures to ensure safe environment

Lietuvos Energija is ready to take emergency response actions in case of potential spilling of transformer oil from the installations – a special agreement on relevant services has been concluded.

The company conducts monitoring of pollution from permanent and mobile sources, keeps accounting for taxable products, taxable packaging and chemical substances, and carries out internal audits of the use of chemical substances and preparations and of the generation of wastes including wastewater. Environmental requirements are set for the investment projects implemented by the company, environmental impact assessments are made for the electricity transmission lines being designed, and contractors are obligated to carry out the task of construction waste management.

At the Kaunas HPP under reconstruction, a trash rack has been installed which, in addition to the collection of garbage floating on the surface of the Nemunas River, separates plastic containers from garbage of organic origin. In the new units installed at the Kaunas HPP, conventional oils have been replaced with environmentally friendly oils that are decomposed in several days and become food for river microorganisms. In 2008, 3.5 km of new 110 kV cable lines were laid and 1.112 km of overhead lines were replaced with underground cable in the electricity transmission grid.

Green purchases

The company has been implementing green purchases: its public procurement documentation includes a requirement that the supplier provides guarantees that the goods/services offered contain less or no hazardous, toxic or otherwise harmful substances, are durable and functional, that the production process involved is less polluting and that the waste left after using the goods are suitable for recovery or recycling. Such criteria are applied in purchasing consumables for computer equipment, stationery, detergents, etc.

Support for Culture, Science and Sports

In 2008 Lietuvos Energija has been a generous sponsor of cultural, educational, healthcare and sports organisations. Large amounts have been allotted for the sponsorship of music, theatrical and fine arts projects and events as well as repairs of architectural monuments. The company is a sponsor of healthcare and educational establishments: in 2008 it funded the purchase of assets by the Vilnius Emergency Medical Care University Hospital and the repairs of two auditoria of the Faculty of History at Vilnius University. Funds have also been allotted for the activities of sports clubs (ice hockey, football, basketball, etc.)

Lietuvos Energija – a Stakeholder of the Technical Museum

In the autumn of 2008, the project Reorganisation of the Energy Museum of Lithuania into the Technical Museum of Lithuania by refurbishing a cultural and historical heritage site – the building of the first central power plant of Vilnius – for the purposes of tourism was completed.

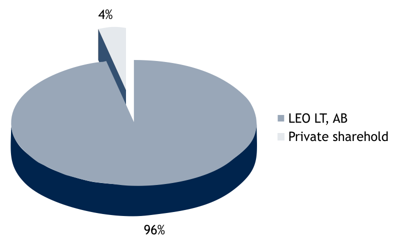
The main purpose of the project was to carry out the reconstruction of an industrial facility, with the preservation of the authentic power plant equipment, and to adapt it for cultural and tourist needs. The area of the Energy Museum was extended from 800 to 5230 m^2, becoming the largest museum in Lithuania presenting different areas of technical heritage. There are two interactive expositions in the museum: Engineering Science and Engineering for Children.

EFFICIENCY TARGET

Share Capital Structure

LEO LT, AB, a national electric power company, is the majority shareholder of Lietuvos Energija AB, controlling 96.5 % of shares in the company. Minority shareholders hold the remaining 3.5 % of the shares.

Share capital structure of Lietuvos Energija AB



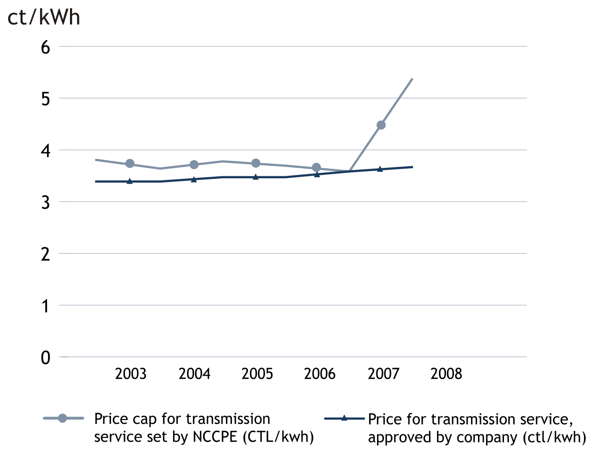
Electricity Transmission Price

The price caps for the electricity transmission service are set by the National Control Commission for Prices and Energy (NCCPE) based on the Methodology for the Setting of Prices and Price Caps for the Electricity Transmission and Distribution Services approved by NCCPE resolution No. 03-85 of 30 August 2004. The price caps are set for a three-year regulatory period and adjusted annually depending on changes in the efficiency ratios set by NCCPE, inflation rates, transmission volumes and other factors beyond Lietuvos Energija's control.

Every year Lietuvos Energija approves the price for the transmission service, which may not exceed the price caps set by NCCPE. There has been no change in 2008 in the electricity transmission price (2.4 cents/kWh).

The price for the electricity transmission service has increased by approx. 5% in 2002-2008.

Electricity transmission service price dynamics



Overview of Performance Indicators

After the Law Amending and Supplementing the Republic of Lithuania Law on Nuclear Power Plant was enacted on February 1, 2008, the national investor's company LEO LT, AB was established on May 27, 2008. 664 700 833 Company shares held by the state were invested into the authorised capital of the above-mentioned company.

The contract between the Government of the Republic of Lithuania and UAB "NDX energija" for the establishment of the national investor, dated April 29, 2008, contains a provision that not later than within 24 (twenty-four) months from the date of the closing, Kaunas HPP and Kruonis PSP have to be separated, both in legal and functional terms, from the Company that will continue to exist and that two public limited liability companies have to be established on the basis of assets, rights and duties of Kaunas HPP and Kruonis PSP (one on the basis of assets, rights and duties of Kaunas HPP and the other on the basis of assets, rights and duties of Kruonis PSP).

Lietuvos Energija AB carried on the same activities as in 2007; the main goal of the Company remained to ensure the reliable functioning of the whole power system. The principal activities of the Company in the reporting year were the following: activities of the transmission system operator (electricity transmission), transmission trading (market operator) and electricity generation and export/import. In 2008, the country's power system did not suffer any major disruptions. The Company also carried out other non-operating activities.

In the first half of the previous year, the growth of the country's economy and, respectively, increased electricity consumption had a positive effect on the Company's performance. In the second half-year, with a slow down in the growth of the economy, the level of electricity consumption declined.

Each year the Company's Board approves the consumer price for the transmission service, which cannot exceed the price cap fixed by the National Control Commission for Prices and Energy. As of 1 January 2008, a new price of transmission service was approved – 3.68 ct/kWh, which was 0.1 ct/kWh higher than in 2007 (the price of electricity transmission did not change; there was an increase in the price of the capacity reserve service only due to an increase in the price of cold reserve sold by Lietuvos Elektrinė AB). The above price of transmission service was significantly lower than the cap price set by the National Control Commission for Prices and Energy (5.36 ct/kWh).

Revenue

In 2008, revenue from sales and other operations of the Lietuvos Energija Group amounted to LTL 1530.3 million and was 27.5 percent higher than in 2007. Key factors underlying the growth in the Company's revenue, such as an increase in PSO prices, increased electricity sales volumes and trade via auction due to a decline in the sales volume of Ignalina NPP during repairs, did not have an impact on the growth of profit. An increase in revenue was also due to a higher price of exported electricity and larger quantities of transmitted electricity.

The most significant part in the revenue structure is represented by the sales of electricity on the domestic wholesale electricity market and PSO, i.e. 56% of the total revenue.

The Company's revenue from its principal activities, i.e. transmission system operator's activities, was LTL 375 million, or 24 percent of the total revenue. Compared with the previous year, revenue from electricity transmission increased by 6.4 percent due to higher volumes of electricity transmission.

Expenses

In 2008, the expenses of the Lietuvos Energija Group amounted to LTL 1 466 million. The biggest portion of expenses (LTL 1080.9 million, or 73.7%) was incurred in connection with the purchase of electricity or related services. Depreciation and amortisation expenses amounted to LTL 138.1 million; salary expenses and related expenses amounted to LTL 85.1 million.

In 2008, a provision of LTL 26.0 million was formed for amounts awarded against the Company by arbitration. Also, considering the performance of subsidiaries and associated undertakings, the value of investments in these undertakings was adjusted and an impairment of investments of LTL 20.8 million was recorded. After assessment of property, plant and equipment, an impairment of LTL 11.2 million was recorded. These were the reasons for an increase in the Company's expenses.

Profit

Profitability ratios are not high; however, this is basically due to the specificities of Lietuvos Energija's operations, i.e. the principal activities of the Company are regulated, and when setting the price for electricity transmission service, the minimum profit margin is included in the price.

In accordance with International Financial Reporting Standards, in 2008 the profit before tax from continuing operations of the Lietuvos Energija Group amounted to LTL 62.6 million, net profit from continuing operations amounted to LTL 41.7 million.

The Company's net profit amounted to LTL 44.9 million, loss of Kauno Energetikos Remontas UAB group amounted to LTL 7.2 million, net profit of Energetikos Pajėgos UAB amounted to LTL 0.04 million, Kruonio Investicijos UAB suffered a loss of LTL 0.6 million (the results of the subsidiaries include revenue from services rendered within the Group).

Debts and liabilities

A decrease of debt to financial institutions results in a lower debt ratio (financial liabilities/assets), thus the Company's debt remains fairly low. Loan and interest coverage ratios are significantly above 1, i.e. the Company's cash flows enable to settle financial liabilities in full.

Notes

Notes

AB LIETUVOS ENERGIJA

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

prepared according to International Financial Reporting Standards, as adopted by the European Union, presented together with the independent auditors' report

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The financial statements were approved by General Director, Finance Director and Chief Financier on 5 March 2009.

Darius Masionis General Director	Aldona Jakutienė Finance Director	Sigitas Baranauskas Chief Financier

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AB LIETUVOS ENERGIJA

Report on the Financial Statements

We have audited the accompanying financial statements of AB Lietuvos Energija, a limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Lietuvos Energija and its subsidiaries (hereinafter the Group), which comprise the balance sheets as of 31 December, 2008, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements and the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AB Lietuvos Energija and the Group as of 31 December 2008, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

As described in Note 36 of the accompanying financial statements, based on the agreement signed by the shareholders of the Company parent, LEO LT, AB, the net assets (assets and liabilities) of the Company attributable to Kruonis Pumped Storage Power Plant and Kaunas Hydro Power Plant (the power plants) have to be transferred to the state of Lithuania for a fee of LTL 1 by 27 May 2010. The management of the Company and the Group has not recorded any adjustments in these financial statements to reflect this obligation because a significant uncertainty exists as to the definition (and therefore the value) of the liabilities to be transferred to the power plants and a reasonable estimate of the amount currently cannot be determined. The total carrying value of non-current and current assets to be transferred in accordance with the agreement amounts to LTL 570 million (mainly consisting of property, plant and equipment in the amount of LTL 569 million) as of 31 December 2008 in the Group's and the Company's balance sheet.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying consolidated Management Report for the year ended 31 December 2008 and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2008.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

The audit was completed on 13 March 2009.

Jonas Akelis Auditor's licence No. 000003 President	Inga Gudinaitė Auditor's licence No. 000336

CONSOLIDATED ANNUAL REPORT OF AB LIETUVOS ENERGIJA AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR 2008

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

General information about the group of companies

Reporting period for which the consolidated annual report has been prepared

The consolidated annual report of the Company and its subsidiaries has been prepared for the financial year 2008.

Companies comprising the Group of companies and their contact details (name, legal form, date and place of registration, company code, address of the registered office (if the address of registered and actual office differ, indicate both), telephone, fax, e-mail and website)

As of 31 December 2008 the Company had a direct control over three subsidiaries: UAB Energetikos Pajėgos, UAB Kauno Energetikos Remontas and UAB Kruonio Investicijos. The Company holds 100 % of shares in these subsidiaries. Indirectly, through UAB Kauno Energetikos Remontas, the Company had the majority of votes in UAB Gotlitas and OOO Kaliningradskij Energoremont.

These consolidated financial statements for the year ended 31 December 2008 include AB Lietuvos Energija, UAB Kauno Energetikos Remontas, UAB Gotlitas, OOO Kaliningradskij Energoremont, UAB Energetikos Pajėgos and UAB Kruonio Investicijos financial statements. Contact information of the Group is presented in the following table:

Company	Legal form	Date and place of registration	Company code	Address of registered office	Telephone, fax, e-mail
AB Lietuvos Energija	Public limited liability company	04-12-1995 Register of Enterprises of the Republic of Lithuania	220551550	Žvejų g. 14, LT-09310 Vilnius	Tel. (8 5) 278 20 82 Fax (8 5) 212 67 36 www.lietuvosenergija.lt; info@lietuvosenergija.lt
UAB Energetikos Pajėgos	Private limited liability company	26-11-2003 Register of Enterprises of the Republic of Lithuania	136046431	T. Masiulio g. 16D, Kaunas	Tel. (8 37) 30 98 97 Fax (8 37) 30 98 03 www.energetikospajegos.lt
UAB Kruonio Investicijos	Private limited liability company	18-01-2007 Register of Enterprises of the Republic of Lithuania	300634954	Kruonio II k., Kaišiadorių district	Tel. (8 5) 278 2315
UAB Kauno Energetikos Remontas	Private limited liability company	27-04-2000 Register of Enterprises of the Republic of Lithuania	135617795	Chemijos g. 17, Kaunas	Tel. (8 37) 45 67 02 Fax (37) 45 29 48 www.ker.lt; ker@ker.lt
UAB Gotlitas	Private limited liability company	30-09-2003 Register of Enterprises of the Republic of Lithuania	136031358	R. Kalantos g. 119, Kaunas	Tel. (8 37) 37 03 90
OOO Kaliningradskij Energo Remont	Private limited liability company	03-10-2001 Register of Enterprises of Kaliningrad Region	SP-1127/1123	Jaltinskaja g. 66, Kaliningrad	Tel. 00740 12578896

In addition, the above mentioned subsidiaries, the Company participated in the management of the following associates: LitPol Link SP Z.o.o. (50 % of shares), AS Nordic Energy Link (25 % of shares), UAB Geoterma (23.44 % of shares); indirectly, through UAB Kauno Energetikos Remontas, the Company had participating interest in UAB Enmašas (33.33 % of shares). The Company is also the founder of Public Institution Centre of Training for Energy Specialists.

Main business activities of the Group companies

Company	Shareholding in the Group	Principal activities
AB Lietuvos Energija	-	Electricity transmission, power energy system services
UAB Energetikos Pajėgos	100 %	Designing of power facilities
UAB Kruonio Investicijos	100 %	Development of public and recreational facilities
UAB Kauno Energetikos Remontas	100 %	Repair of energy equipment, manufacture of metal structures
UAB Gotlitas	100 %	Accommodation services, trade
OOO Kaliningradskij Energoremont	99 %	Repair of energy equipment

Issuer's contracts with broker companies and/or credit institutions, providing investment services and/or performing investment business

On 29 December 2006, the Company and AB Bankas Hansabankas entered into issuer's securities management agreement regarding accounting of issuer securities and management of personal securities accounts. The agreement was effective until 31 December 2008 and at the end of the year it was extended until 31 December 2010.

On 10 August 2006, the Company and AB SEB Bankas entered into an agreement regarding bonds listing (preparation of bonds emission).

Trading in securities of the companies comprising the Group on regulated markets (name of the regulated market and the number of securities admitted to trading)

The Company's shares are traded on NASDAQ OMX Vilnius Stock Exchange (hereinafter the VSE). The Company's shares are included on the Secondary VSE trading list. The Companhas issued 689,515,435 ordinary registered shares with nominal value of LTL 1 each (ISIN code LT0000117681).

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

Overview of the situation of the Group companies, performance and business development, description of main risk and uncertainties

In accordance with the Law on Nuclear Power Plant as amended and supplemented on 1 February 2008, the national investor company LEO LT, AB was established on 27 May 2008. 664,700,833 shares of the Company held by the state were invested into the share capital of this company. The contract between the Government of the Republic of Lithuania and UAB NDX Energija for the establishment of the national investor, dated 29 April 2008, contains a provision that not later than within 24 (twenty-four) months from the date of the closing Kaunas HPP and Kruonis PSP have to be separated both in legal and functional terms from the Company that will continue to exist and two public limited liability companies have to be established on the basis of assets, rights and obligationnns of Kaunas HPP and Kruonis PSP (one on the basis of assets, rights and obligations of Kaunas HPP and one on the basis of assets, rights and obligations of Kruonis PSP).

The Company carried on the same activities as in 2007. Its principal activities in the reporting year were as follows: activities of transmission system operator (electricity transmission), transmission trading (market operator) and electricity generation and export/import. The Company also carried out other, non-operating activities. In the first half of the previous year, the growth of the country's economy and, respectively, increased electricity consumption had a positive effect on the Company's performance. In the second half-year, with a slow down in the growth of the country's economy, the level of electricity consumption decreased. The goal of the Company is to ensure reliable functioning of the power system. In 2008 the country's power system had no major disruptions. The crisis significantly affected the operating results of a Group company UAB Kauno Energetikos Remontas. In the period from September until the end of the previous year, the number of orders has significantly decreased.

On 28 September 2008, drawing on the fact that the credit rating for the Republic of Lithuania was reduced, the international rating agency Standard & Poor's lowered accordingly the Company's foreign currency long-term rating from A- to BBB+ and placed the Company on CreditWatch with negative implications. To remove the CreditWatch status, the rating agency needs to analyse the financial capacity of the whole LEO LT group.

Transmission system operator's business

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

The price cap for electricity transmission services is set by the National Control Commission for Prices and Energy (hereinafter the Commission). By Resolution No. O3-85 of 30 August 2004, the Methodology for Setting Price Caps for Electricity Transmission and Distribution Services was approved. The price caps are fixed for a term of 3 years and are revised yearly subject to Commission's defined effectiveness ratios, inflation, change of transmission volumes and other factors, which do not depend on the Company.

Each year the Company's Board approves consumer price for the transmission service, which cannot exceed the established price cap. As of 1 January 2008, a new price of transmission service was approved – 3.68 ct/kWh, which was 0.1 ct/kWh higher than in 2007 (the price of electricity transmission did not change; there was an increase in the price of the capacity reserve service due to increase in the price of cold reserve sold by AB Lietuvos Elektrinė). The above price of transmission service was significantly lower than the cap price set by the Commission.

The below-presented transmission prices dynamics and structure table shows that the transmission service price after the reorganization of the Company during 2002–2008 increased by about 5 %.

Dynamics of electricity transmission prices in 2002-2008

	Q1 2002	Q2–Q4 2002	2003	2004	2005	2006	2007	2008
Price cap of the electricity transmission service set by the Commission (ct/kWh)	3.80	3.82	3.80	3.63	3.78	3.70	3.59	5.36*
Of which: for transmission	2.35	2.43	2.41	2.25	2.51	2.43	2.41	4.08
for capacity reserve	1.45	1.39	1.39	1.38	1.27	1.27	1.18	1.28
Price of the electricity transmission service approved by the Board (ct/kWh)	3.80	3.39	3.39	3.38	3.47	3.47	3.58	3.68*
Of which: for transmission	2.35	2.00	2.00	2.00	2.20	2.20	2.40	2.40
for capacity reserve	1.45	1.39	1.39	1.38	1.27	1.27	1.18	1.28

* Excluding the price of public service obligation electricity

Since 2008 the transmission price structure underwent a significant change – compensation to electricity generators for public service obligation (hereinafter the PSO) became a part of transmission price. Including the above-mentioned PSO price, as of 1 January 2008, the transmission price was 7.4 ct/kWh.

During 2008, as a transmission system operator, the Company transmitted through its high voltage power lines 10.1 billion kWh of electricity for domestic needs. The volume of transmitted electricity was 5 % higher than in 2007: the volume of electricity transmitted to distribution networks increased by 1.5 % compared with 2007 and accounted for 8.8 billion kWh; the volume of electricity transmitted to other consumers was 1.3 billion kWh, or 38 % higher.

Business of market operator

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

Suppliers on the Lithuanian wholesale market trade in electricity of two types – contractual based on direct bilateral agreements, signed between generators and suppliers; and additional electricity, sold through an auction of generators. After the change in the rules of trading, PSO electricity is no longer traded on the domestic market; funds intended for compensation to manufacturers for public service obligation are collected as part of the price of electricity transmission service.

In 2008, Lithuania's wholesale market demand was 11.3 billion kWh (10.8 billion kWh in 2007). Wholesale market players purchased 6.9 billion kWh of contractual electricity, and 4.4 billion kWh of additional electricity.

Additional electricity was traded through the Company as the market operator.

Electricity generation and exports

The Company holds permits with unlimited validity period to perform electricity generation, import and export.

The Company owns two power plants – Kaunas HPP and Kruonis PSP – whereby it generates electricity. These power plants operated as integral parts of electricity transmission system, the electricity generated by them was mostly used for compensation of the Company's technological losses and ensuring the balance of generation and consumption levels. During the reporting period, these power plants supplied to the transmission grid 0.91 billion kWh of electricity, which accounted for approximately 6.5 % of the whole electricity supplied in the country.

The Company continuously strives to optimize export structure, to achieve the highest benefit at the least possible cost. In 2008, the Company sold for export 2.37 billion kWh. Compared to 2007, the volume of electricity sold by the Company for export decreased by 3.7 % due to an increase in the domestic demand for electricity.

Other activities

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

In 2008, 131 km of optical fibre cable was laid, 12 substations were connected to the Company's optical fibre communication network and 11 substations were connected to the telecommunication network.

Six systems of telecommunication nodes were installed for dispatch control, teleinformation, commercial flow readings, control of substations, and the network of video monitoring systems in substations was extended to 6 more substations. In the field of data transmission, SDH network was optimised and the installation of DWDM-based network that enables transmission of 10 Gbit/s was started.

During 2008 AB VST data transmission network was logically separated from the Company's data transmission network, a network for EESIS system was installed, a reserve connection was established between Vilnius and Kaunas data centres using SDH equipment and a network of data centres was configured for DVS systems. A virtual data transmission network for the control of voice recording equipment and recording conversations of dispatchers was installed in the Company and the project of upgrading dispatch management system XA 21 was completed.

Contracts for the provision of services were extended and signed with UAB Bitė Lietuva, UAB Tele2, SIA Lattelekom, AS Latvenergo, AB TEO LT, TPSEA (Lenkija), UAB Visagino Atominė Elektrinė, UAB InterLinks, and LEO LT, AB.

Subsidiaries

The main activities of the second largest company of the Group – limited liability company Kauno Energetikos Remontas – are energy equipment diagnostic, upgrade, repairs, installation, spare parts for energy equipment manufacturing, metal structures for energy and industrial purpose manufacturing, spare parts for boilers and engines manufacturing, hermetic oil transformers manufacturing. The main activities are carried out in 4 divisions of the company: Boiler Manufacturing, Turbine Manufacturing, Mechanical and Electric; in 5 laboratories and Metal and Welding departments.

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

The operating result of UAB Kauno Energetikos Remontas seriously deteriorated in the second half of the previous year due to a lower number of orders as a result of the start of economic downturn.

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

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

Investments into property, plant and equipment and intangible assets

In 2008 the Company's investments into property, plant and equipment and intangible asset amounted to LTL 159.8 million (the sum of investments, indicated in this statement, and the sum of acquisition of property, plant and equipment, indicated in the explanatory notes of these financial statements do not match due to change in prepayments for property, plant and equipment of LTL 7.7 million). The Company used its own funds (75 % of total investments) and funds of clients or EU assistance funds (25 %) for financing the acquisitions. The latter consisted of connection to the grid of wind parks and other generations funds, funds of the European Regional Development Fund and co-financing funds, allocated for rehabilitation of Kaunas HPP.

Investment trends in 2008 remained the same as in previous years: reconstruction and development of the transmission grid (LTL 81 million invested), upgrade and development of IT systems, telecommunications and control systems, implementation of technological measures, acquisition of hardware and software (LTL 15.5 million invested), modernisation and rehabilitation of power plants (LTL 56.6 million invested), construction and reconstruction of buildings and acquisition of other fixed assets (LTL 6.7 million invested).

In 2008, investments of UAB Kauno Energetikos Remontas group into property, plant and equipment and intangible assets amounted to LTL 4 million; the largest portion was allocated for the acquisition of plant and machinery. The investments were financed using the company's own funds and borrowed funds.

One of the key goals of the Company is the integration of the Lithuanian energy system into the electricity market of Western Europe and development of regional cooperation. At the beginning of 2008, the Company and the management of PSE Operator (Poland) signed a shareholders agreement of the joint venture that will implement the interconnection project of the Lithuanian and Polish power systems. On 19 May 2008, a joint venture of the above-mentioned companies LitPol Link Sp z.o.o. was established and commenced operations. The purpose of the joint venture is to carry out pre-construction works in relation to Alytus-Elkas link so that fundamental decisions regarding the progress of implementing the grid project may be taken by the end of Q1 2010.

The Company and Swedish transmission system operator Svenska Kraftnät completed a feasibility study for the interconnection of the Lithuanian and Swedish grids. The results of the study show that on the basis of the analysed technical, economic and legal aspects the interconnection of the systems is feasible and would be justified from the economic point of view. In September 2008 LEO LT, AB established a subsidiary UAB InterLinks, which was assigned with the task to continue the implementation of the project on power grid connection between Lithuania and Sweden.

Furthermore, on assignment from the Government, in 2008 the Company carried out certain preparatory works related to the project of construction of a new nuclear power plant in Lithuania. The most important of those was the approved Environmental Impact Assessment Programme and its commenced implementation. In September 2008, LEO LT, AB established a subsidiary UAB Visagino Atominė Elektrinė to which the Company assigned all the works related to the project of construction of a new nuclear power plant in Lithuania.

Risk factors related to the issuer's operations

Political risks

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

The price cap for electricity transmission services is set by the Commission; the actual prices are approved by the Board of the Company. The Company's results of operation may depend on such decisions. For example, in setting the price cap for the electricity transmission service for the period of 2005–2007, the increase in amortization and depreciation expenses due to the assets revaluation at their fair value was not included in the price.

Economic risks

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

The risks of decreasing revenue and profit in the subsidiaries remain due to the deepening economic downturn.

Financial risks

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

Credit risk

The Company's credit risk related to accounts receivable is limited owing to the fact that the main purchasers of the Company are reliable customers; credit risk is allocated among several purchasers.

The credit risk of other Group companies is growing due to an increase in the number of insolvent customers.

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

Liquidity risk

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

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

Market risk

Interest rate risk

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

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

Group companies had fixed and floating interest rate loans. At the end of 2008, the Company has only fixed interest rate loans.

In 2008, the Company had no interest rate swap transactions; interest rate swap transaction with Nordea Bank Finland Plc. Lithuania Branch was closed on 30 June 2007.

Foreign exchange risk

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

Starting from 2 February 2002, litas has been pegged to euro; therefore, changes in foreign exchange rates do not have a significant impact on the Company's and the Group's equity.

The companies comprising the Group have no significant concentration of foreign exchange risk; therefore, it did not use any financial instruments for managing the foreign exchange risk in recent years.

Risk of security prices

The Company has acquired Lithuanian and Finnish Government bonds. The Company's management considers that these securities are low risk securities.

For more detailed information on the management of financial risks, refer to Management of Financial Risk, Note 35 in Explanatory Notes to the Financial Statements.

Technical-technological risk factors

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

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

Ecological risk factors

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

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

Analysis of the Group's financial and non-financial performance results, information related to the environmental protection and human resources management

The table below contains the financial performance results of **the Company only**, as the principal company of the Group. The indicators for 2007 and 2008 exclude discontinued operations of the Company. As of August 2008, nuclear power operations were transferred to UAB Visagino Atominė Elektrinė, a subsidiary of LEO LT, AB (see Note 31 "Discontinued Operations" of the Explanatory Notes to the Financial Statements).

	Report for 2008	Report for 2007
Financial results (in LTL thousand):		
Sales revenue	1,455,887	1,111,116
Other operating income	26,407	22,350
EBITDA (earnings before taxes + interest expenses - interest income – dividends received + depreciation and amortisation + impairment of property, plant and equipment and current assets*)	215,353	211,643
Operating profit	83,749	66,877
Net profit	44,911	49,782
Cash flow from ordinary activities	239,435	191,270
Financial liabilities	39,707	89,821
Investments (the sum of investments, indicated in this statement, and the sum of acquisition of property, plant and equipment, indicated in the explanatory notes of these financial statements do not match due to change in prepayments for property, plant and equipment of LTL 7.7 million)	159,781	151,984
Fixed assets at the end of the year	3,194,324	2,607,976
Financial structure (ratio):		
Liabilities / equity capital	0.28	0.24
Financial liabilities / equity capital	0.02	0.04
Financial liabilities / assets	0.01	0.03
Loan coverage (ratio):		
Loan coverage ratio EBIT (earnings from continued operations before taxes + interest expenses – interest income – received dividends) / (interest expenses + loans due within one year)	2.34	3.24
Interest coverage ratio EBIT (earnings from continued operations before taxes + interest expenses – interest income – received dividends) / interest expenses)	26.82	11.7
Margins and profitability:		
Return on equity (net profit/ equity capital) (%)	1.68 %	2.25 %
Return on assets (net profit/assets) (%)	1.31 %	1.81 %
Earnings per share (ct per share)	6.5	7.2

* Impairment of investments into associates and subsidiaries is not included

In 2008, the Company formed provisions for compensation of damages of LTL 26.0 million (the arbitration award is discussed in more detail in Note 36 of the Explanatory Notes to the Financial Statements), considering the performance of subsidiaries and associates, the value of investments in these entities was adjusted and impairment of investments of LTL 20.8 million was recorded (see Note 7 of the Explanatory Notes to the Financial Statements), after assessment of property, plant and equipment impairment of LTL 11.2 million was recorded (see Note 5 of the Explanatory Notes to the Financial Statements). These were the reasons for the increase of the Company's expenses.

Profitability ratios are not high; however, this is basically due to the specificities of the Company's operations, i.e. the principal activities of the Company are regulated, and when setting the price for electricity transmission service, the minimum rate of profit is included in the price.

Annual return on equity of UAB Kauno Energetikos Remontas group dropped from 3.8 % to - 20.2 %. In addition to the above-mentioned decrease in the number of orders, a decrease in profitability was also influenced by impairment of inventory (LTL 1.8 million) and impairment of property, plant and equipment (LTL 2.9 million).

The Company's reduced debts balance due to financial institutions decreased the debt ratio (financial liability/equity), thus the level of the Company's borrowings remained rather low. The coverage ratios of the loans and interest are significantly above 1, i.e. the Company's annual cash flows enable to settle financial liabilities in full.

Balance sheet

In accordance with the provisions of International Financial Reporting Standards and in implementing the general methods of accounting for assets used by LEO LT, AB group of companies according to which the Company's property, plant and equipment must be carried at revalued amount, independent property appraisers evaluated property, plant and equipment at LTL 3,125.9 million as of 31 December 2008 as disclosed in the Financial Statements .

Impairment of investments in subsidiaries was recorded taking into account their performance in 2008 and estimated performance in the future.

Grants include funds received from customers under energy equipment relocation agreements when implementing investment projects and assistance from the European Regional Development Fund and co-financing funds for modernisation of Kaunas HPP.

During the reporting period, the Company did not conclude any new loan agreements. During the half-year, the Company's financial liabilities decreased by LTL 50.1 million and as of 31 December 2008 amounted to LTL 39.7 million.

Furthermore, under guarantee agreements, the Company has secured 25 % (LTL 72.5 million) of Nordic Energy Link , AS liabilities to banks.

Liabilities to the bank of UAB Kauno Energetikos Remontas under finance leases amounted to LTL 2.5 million, other debts to banks amounted to LTL 0.3 million. UAB Energetikos Pajėgos and UAB Kruonio Investicijos had no financial liabilities to banks.

Profit (loss) account

Revenue and expenses

Revenue

In 2008, revenue from sales and other operations of the Group amounted to LTL 1,530.3 million and was 27.5 % higher than in 2007. Key factors underlying the growth in the Company's revenue, such as an increase in PSO prices, increased electricity sales volume and trade via auction due to a decline in the sales volume of Ignalina NPP during repairs, did not have an impact on the growth in profit. The increase in revenue was also due to a higher price of exported electricity and larger quantities of transmitted electricity.

The most significant part in the revenue structure is represented by the sales of electricity on the domestic wholesale electricity market and PSO, i.e. 56 % of the total revenue. The Company's revenue from its principal activities, transmission system operator's activities, was LTL 375 million, or 24 % of the total revenue. Compared with the previous year, revenue from electricity transmission increased by 6.4 % due to higher volumes of electricity transmission.

Sales revenue of UAB Kauno Energetikos Remontas group (in the consolidated financial statements of AB Lietuvos Energija this revenue is shown under revenue from other operations) decreased from LTL 70.9 million in 2007 to LTL 55.3 million in 2008, or by 22 %. The company derives the main portion of its sales revenue from repair, installation and modernisation of energy equipment and manufacturing and installation of spare parts and metal structures.

UAB Energetikos Pajėgos mainly provided services to Group companies. The revenues of this company amounted to LTL 2.2 million. UAB Kruonio Investicijos did not earn revenue from sales.

Expenses

In 2008, the expenses of the Group amounted to LTL 1,466 million. The biggest portion of expenses of the Group (LTL 1,080.9 million, or 73.7%) was related to the purchase of electricity or related services. Depreciation and amortisation amounted to LTL 138.1 million; salary expenses and related expenses amounted to LTL 85.1 million.

Expenses incurred by the subsidiaries represented an insignificant part in the total expenses of the Group – 4.6%.

Profit

According to International Financial Reporting Standards, in 2008 the Group's profit before tax from continuing operations amounted to LTL 62.6 million, net profit from continuing operations amounted to LTL 41.7 million.

The Company's net profit from continuing operations amounted to LTL 44.9 million, loss of UAB Kauno Energetikos Remontas group amounted to LTL 7.2 million, net profit of Energetikos Pajėgos UAB amounted to LTL 0.04 million, UAB Kruonio Investicijos incurred a loss of LTL 0.6 million (the results of the subsidiaries include revenue from services rendered within the Group).

Cash flow statement

Net cash flow from operating activities of the Group increased to LTL 238.9 million, while in 2007 amounted to LTL 192.0 million.

Net cash flow from investing activities of the Group amounted to LTL 136.6 million (at the end of the same period in the previous year LTL 142.9 million). Cash used in the financial activities amounted to LTL 50.1 million.

Net increase of cash flow at the end of the reporting year amounted to LTL 52.1 million, while in 2007 amounted to LTL 13.5 million.

Personnel and environmental issues

Personnel

At the end of 2008 the Group employed 1,409 people, i.e. 342 employees less than a year ago. The employees of the Company accounted for 69 %, UAB Kauno Energetikos Remontas for 30 %, and UAB Energetikos Pajėgos for approx. 1 % of the total number of employees.

For the purpose of optimising activities, in the second half of the year the Company started the reorganisation of its organisational structure, and as a result the annual number of employees decreased by 163, although the scope of work increased. The Company's management structure changed in the direction of flat management structure: nine departments directly subordinate to the Chief Executive Officer were set up. After the review of implemented activities and functions, internal structures of departments also were changed. This enabled the optimisation of activities when more functions are carried out with a less number of employees.

In the second half of the year, the Company launched 19 projects in different fields of activity: organisational development, strengthening the purchasing function, separation of activities, network development, budgeting development, review of pricing, and other projects. In addition to their immediate functions, a large number of the Company's employees were involved in those projects. This provided an opportunity not only for active participation in optimising the Company's processes and operations, but also showing the initiative and self-improvement.

In 2008, the statistical turnover of employees in the Company was approximately 17 %, including retirements due to age, termination of time-limited employment contracts, dismissals by mutual agreement of the parties and initiated by the employer, etc. The actual loss of employees when the employment contract was terminated by the employee after he/she had found another job or due to other personal reasons was about 3 %.

The Company's office staff represents approx. 56 %, and workers 44 % of the Company's personnel. More than 50 % of the personnel have higher education.

The essential factor predetermining the implementation of the Company's targets is a continuous and systematic improvement of professional development of the personnel. In 2008, the Company spent approximately LTL 1.63 million on the employees' qualification improvement (included in this amount is more than LTL 0.7 million spent on compulsory training and professional development). Moreover, the specialists of the Company were given a possibility to gain experience in foreign electric power companies and to improve their qualification during the implementation of investment projects.

The number or UAB Kauno Energetikos Remontas employees has been decreasing in the recent years as a result of raising the efficiency of activities and focusing on power facility repairs and abandoning manufacturing, either fully or in part. During 2008, the number of UAB Kauno Energetikos Remontas employees significantly decreased. At the end of 2008, the Group employed 456 persons, while as of 31 December 2007 there were 600 employees. Among those who are dismissed are unskilled, auxiliary employees or employees of pensionable age. Workers represent 64 %, managers, specialists and office staff 36 % of the total number of employees.

UAB Kauno Energetikos Remontas focuses on the qualification improvement of the personnel involved in the industrial processes related to the repair and maintenance technologies of turbines and electric equipment.

AB Lietuvos Energija and UAB Kauno Energetikos Remontas have Collective Agreements signed between the employer and the employees' representatives. In addition to the mandatory guarantees prescribed by the legal acts of the Republic of Lithuania, employees are provided with additional guarantees under collective agreements, including medical services, allowances on the occasion of personal anniversaries, when a child is born, support in the case of accident, additional vacation days (for length of service, etc.).

Environmental protection

In its operations the Company seeks to sparingly use natural resources, implements new, eco-friendly technologies and strives to operate in line with the requirements of the environmental laws and standards, to implement preventive measures decreasing negative impact on the environment.

The Company was not fined for the breach of the environmental protection requirements.

Waste management

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

In 2008, 77 tones of hazardous waste were handed over for processing, 43 tones of reinforced concrete and porcelain insulator waste to be processed for production of break stone, which is used in road construction, along with 314 tones of ferrous scrap metal, and 10 tones of non-ferrous scrap metal.

In 2008, total expenses of the Company for waste management amounted to LTL 80 thousand.

Waste-water treatment

The Company regularly implements the monitoring of permitted levels of pollution from point sources (waste water) provided for in the integrated pollution prevention and control permit and Waste Water Treatment Regulation. The services of regular maintenance of rain water and household waste water treatment facilities (regeneration and replacement of filters, disposal of sludge, etc.) are purchased from specialised companies.

In Vilnius substation undergoing reconstruction surface rainwater treatment facilities were installed. In 2008, total expenses for waste water treatment amounted to LTL 92 thousand.

Preventive measures to ensure safe environment

Calculations of emissions from point and mobile pollution sources and stocktaking of taxable products, taxable packaging and chemical substances is regularly made; internal audits of the management of used chemical substances and preparations and waste and wastewater generated in the Company's activities.

Environmental protection requirements are set for the undertaken investment projects, environmental impact assessment is ordered for the designed electricity transmission lines, contractors are obliged to handle construction waste.

Additional 3.5 km of 110 kV voltage cable lines were installed in the transmission system, and 1.12 km of overhead transmission lines were replaced with underground cables.

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

More detailed explanations of financial information are provided in the Explanatory Notes to the Financial Statements for the year 2008.

Significant events after the end of the previous financial year

Plans and forecasts for the Group's operations

The forecasts of operations in 2009 were made on the assumption that in 2009 the Company will continue the operations carried out in 2008, i.e.: will perform the functions of the transmission system operator, the market operator, and generate and export/import electricity.

It is estimated that the Company's financial performance this year will not be worse than in 2008.

It is planned that LTL 120 million will be allocated for investments in 2009.

It is estimated that UAB Kauno Energetikos Remontas performance results will improve very slowly and endeavours will be made to earn at least minimum profit.

Subsidiaries do not plan any significant investments.

Information on research and development

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

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

In 2008, the Company purchased research studies for LTL 1.3 million. Research focused on the improvement of reliability of the transmission system: a methodology for dynamic models of power energy system was prepared based on which dynamic aggregate models for electromechanical transient processes evaluation in the electrical ring of the BRELL system, using software package Siemens™ PSS/E; a survey of wind energy generation short-term forecasting methods and models was conducted.

The number and nominal value of the parent company's shares held by the Company, by its subsidiaries or persons acting on their behalf, but in their own name

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

Other information about the issuer

Structure of the share capital (number of shares, nominal value of one share, the rights and obligations attaching to each class of shares and the percentage of total share capital that it represents)

The share capital of the Company registered in the Register of Enterprises on 21 February 2002 amounts to LTL 689,515,435. It is divided into 689,515,435 ordinary registered shares of one litas nominal value each. All the shares are fully paid.

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

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

- to receive a part of the Company's profit (dividend);
- to receive a part of the property of the Company under liquidation;
- to receive shares for free if the share capital has been increased from the Company's funds, except the cases where the Law on Companies of the Republic of Lithuania provides otherwise;
- to have the pre-emption right to acquire newly issued shares or convertible debenture bonds of the Company, except the case where the general shareholders meeting, decides to withdraw the pre-emption right for all the shareholders in accordance with the procedure provided for by the Republic of Lithuania Law on Companies;
- to lend to the Company in the manner prescribed by law; however, when borrowing from its shareholders, the Company has no right to pledge its assets to the shareholders. When the Company borrows from a shareholder, the interest may not be higher than the average interest rate offered by commercial banks of the lender's place of residence or business, effective on the date of conclusion of the loan agreement. In such a case the Company and shareholders shall be prohibited from negotiating a higher interest rate;
- to transfer all the shares or a part thereof to the ownership of other persons;
- to request from other shareholders a mandatory selling of their shares or a mandatory buying of their shares abiding by the procedure set forth by the Law on the Securities Market;
- other property rights established by law.

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

- to attend the general meetings of shareholders;
- to vote at the general meetings of shareholders in exercise of the voting rights carried by their shares. One ordinary registered share shall entitle to one vote;

- to obtain information on the Company to the extent defined by law;
- to file claims for reparation of damage resulting from nonfeasance or malfeasance by the Company's manager and Board members of their obligations prescribed by law and the Articles of Association of the Company, as well as in other cases laid down by law;
- other non-property rights established by law.

The number of acquired and transferred own shares during the reported period, their nominal value and the part of the share capital represented by such shares

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

All restrictions on the transfer of securities, such as limitations on the holding of securities or the need to obtain the approval of the Company or other holders of securities

Not applicable.

Shareholders (total number of shareholders; shareholders who at the end of the reporting period (indicate the specific date) own shares or control more than 5 % of the issuer's share capital (names and surnames of natural persons (the paper version of the annual report must in addition contain personal codes of those persons), names of companies, legal status, company codes and addresses of registered offices), number of shares owned by the shareholders by class of shares, percentage of the share capital or votes held by them, and an indication of the percentage of votes attached to the shares held by each person and the percentage of indirectly held votes)

The total number of shareholders is 5,804. The shareholders as of 31 December 2008 holding more than 5 % of AB Lietuvos Energija share capital (LTL 689,515,435):

Company	Type of shares	Number of shares	Shareholding (%)	Voting interest (%)
LEO LT, AB Company code 301732248, Žvejų g. 14A, Vilnius	Ordinary registered shares	664,700,833	96.4012	96.4012

Shareholders having special rights to execute control and description of these rights

Not applicable.

All restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby the financial rights attaching to securities are separated from the holding of securities)

Not applicable.

All agreements among the shareholders which are known to the issuer and which may result in restrictions on the transfer of securities and/or voting rights

Not applicable.

Information about the Company's branches and representation offices

As of 31 December 2008 the Company had 2 branches: Kaunas HPP and Kruonis PSP. The branches are operating according to the regulations approved by the Board of the Company for every branch individually.

The contract between the Government of the Republic of Lithuania and NDX Energija UAB for the establishment of the national investor, dated 29 April 2008, contains a provision that not later than within 24 (twenty-four) months from the date of the closing Kaunas HPP and Kruonis PSP have to be separated both in legal and functional terms from Lietuvos Energija AB that will continue to exist and two public limited liability companies have to be established on the basis of assets, rights and duties of Kaunas HPP and Kruonis PSP.

Employees (the average number of employees, changes during the reporting financial (business) year, the reasons which caused the biggest change (over 10 %), grouping of employees according to their educational background, number of managers, specialists, workers, pre-tax average monthly salary of a respective group of employees, special rights or responsibilities of the issuer's employees or a part thereof set forth in the employment contracts or collective agreements)

Changes in the average number of employees during the last three financial years

At the end of each year covering the period from 2006–2008 the Company employed the following number of persons:

	As of 31 December 2006	As of 31 December 2007	As of 31 December 2008
Total	1,142	1,130	967
of which:			
– power plants	295	277	273
– head office and transmission divisions	847	853	694

Composition of employees by type of their job (as of 31 December 2008):
• Office staff – 56 %
• Workers – 44 %.

Average number of employees and average salaries

	2006		2007		2008	
	Average conditional number of employees	Average salary (LTL)	Average conditional number of employees	Average salary (LTL)	Average conditional number of employees	Average salary
Workers	418	1,974	399	2,107	374	2,318
Office staff	694	3,144	699	3,412	678	3,740
Executive personnel	6	16,367	6	19,203	5	18,186
Total	1,118	2,776	1,104	3,025	1,057	3,342

Breakdown of the Company's employees by educational background at the end of the period

	2006	2007	2008
Number of employees	1,142	1,130	967
of which have:			
higher education	569	579	510
post-secondary education	267	255	327
secondary education	282	275	114
incomplete secondary education	24	21	16

Procedure for amendment of the issuer's Articles of Association

The Company's Articles of Association are amended in the manner prescribed by Republic of Lithuania Law on Companies by decision of the general shareholders meeting adopted by the majority of 2/3 of all the votes carried by the shares held by the shareholders attending the meeting. If the general shareholders meeting resolves to amend the Articles of Association, a new version of the amended Articles of Association is prepared and signed by a person authorised by the general shareholders meeting.

The issuer's management bodies (the powers delegated to them, the procedure for appointment and replacement of their members)

The extraordinary general shareholders meeting held on 30 June 2008 approved a new version of the Company's Articles of Association.
The Company's management bodies are as follows:
• general shareholders meeting;
• the Board;
• Chief Executive Officer.

The competencies of the General Shareholders Meeting do not differ from those prescribed by the Law on Companies. At least 2/3 of the Company's shares and voting rights at the general shareholders meeting of the Company are held by LEO LT, AB. The transmission grid and its appurtenances owned by the Company are energy facilities of national importance that must be directly or indirectly (through LEO LT, AB) controlled by the Republic of Lithuania.

The Board of the Company is the supreme and permanent governing body of the Company. The competence of the Board, the decision-making procedure and the procedure for election and removal from office of Board members is established by laws, other legal acts and the Articles of Association.

Board members are elected by the general shareholders meeting for a term of 4 (four) years. The Board elects the Chairman of the Board from among its members. If the Board is recalled, resigns or suspends its duties due to other reasons before expiration of its term, a new Board is elected for the remaining term of the Board. Where individual Board members are elected, they are elected only for the remainder of the term of office of the existing Board.

When proposing candidacies for membership of the Board, the Company's shareholder (shareholder's representative) proposing the same must provide the general shareholders meeting with written explanations as to qualification, managerial work experience and suitability of each proposed Board member to serve on the Board of the Company.

The Board of the Company takes decisions for the Company to become an incorporator or member of other legal entities; decisions regarding the restriction of any transfer of shares (interests, member shares) held by the Company and the rights attaching to them; decisions to open and terminate activities of the branches or representative offices of the Company; and decisions to issue debentures.

The Board elects and removes from office the chief executive officer of the Company. The chief executive officer of the Company is its General Manager who organizes current economic activities of the Company and performs other functions prescribed by the laws or the Articles of Association.

Members of the collegial management bodies, chief executive officer, chief accountant (names and surnames (the paper version of the annual report submitted to the Commission in addition must contain the personal codes of the persons concerned), data on participation in the share capital of the issuer, the beginning and the end of the term of office of each person, information on the amounts calculated by the issuer, other assets transferred and guarantees granted to such persons in terms of total and average amounts per one member of the collegial body, executive officer and chief accountant)

Prior to extraordinary general meetings of shareholders held on 30 June 2008 and 8 July 2008, members of the collegial bodies, chief executive officer and chief accountant of the Company were the persons listed below.

Position	Name and surname	Start date	End date	Number of the issuer's shares held
Supervisory Board				
Chairman	Anicetas Ignotas			
Member	Saulius Spėčius	31-01-2002	02-07-2008	-
Member	Nijolė Bujauskienė	01-10-2001	02-07-2008	-
Member	Genovaitė Geleževičienė	29-04-2004	02-07-2008	-
Member	Petras Urbonas	29-04-2004	02-07-2008	-
		29-04-2004	02-07-2008	-
Board				
Chairman of the Board	Jurgis Vilemas	14-02-2000	07-07-2008	-
Board member	Rymantas Juozaitis	07-02-2002	07-07-2008	306,318 (0.0444 %)
Board member	Algimantas Zaremba	09-10-2001	07-07-2008	-
Board member	Vida Dzermeikienė	06-08-2002	07-07-2008	-
Board member	Dominikas Pečiulis	08-11-2004	07-07-2008	-
Board member	Marijus Franckevičius	08-11-2004	07-07-2008	-
Administration				
General Director	Rymantas Juozaitis	08-02-2002	21-05-2008	306,318 (0.0444 %)
Acting General Director	Rimantas Šukys	22-05-2008	13-07-2008	-
Chief Financier	Sigitas Baranauskas	27-07-1998	-	-

After the above-mentioned meetings, the following persons were appointed as members of the collegial bodies, chief executive officer and chief accountant:

Position	Name and surname	Start date	End date	Number of the issuer's shares held
Board				
Chairman of the Board	Darius Masionis	08-07-2008	03-12-2008	-
Board member	Rimantas Šukys	08-07-2008	03-12-2008	-
Board member	Petras Povilas Škiudas	08-07-2008	03-12-2008	11,738 (0.0017 %)
Administration				
General Director	Darius Masionis	14-07-2008	-	-
Chief Financier	Sigitas Baranauskas	27-07-1998	-	-

After the extraordinary general meeting of shareholders held on 4 December 2008, members of the collegial bodies, chief executive officer and chief accountant of the Company were the persons listed below.

Position	Name and surname	Start date	Enda date	Number of the issuer's shares held
Board				
Chairman of the Board	Darius Masionis	04-12-2008	2012	-
Board member	Mindaugas Jablonskis	04-12-2008	2012	-
Board member	Vidmantas Grušas	04-12-2008	2012	-
Board member	Aldona Jakutienė	04-12-2008	2012	-
Administration				
General Director	Darius Masionis	17-07-2008		-
Chief Financier	Sigitas Baranauskas	27-07-1998		-

Information on total and average amounts of remuneration, bonuses and other payments from profit calculated by the Company during the reported period per one person (the Administration comprises of the General Manager and Chief Accountant):

	Salary for January-December 2008 (LTL)	Annual bonus for 2008 (LTL)	Bonuses received in 2008 (LTL)	Dividends received in 2008 (LTL)	Total (LTL)
Average amount per Board member	262,458	-	9,333	-	271,791
Total amount for all Board members	839,865	-	5,000	-	895,865
Average amount per one Company's Administration member	252,599	57,367	12,000	1,200	323,166
Total amount for all Company's Administration members	505,197	114,734	24,000	2,400	646,331

All agreements among the issuer and members of its management bodies or employees providing for compensation in the case of their resignation or dismissal without a justified reason or in the case of termination of their employment due to the changes in the issuer's control

Employment contracts with Board members provide for compensations in the amount of 6 monthly salaries payable on their resignation or dismissal.

The issuers of equity securities in addition have to present information on major transactions between related parties and specify the amounts of the transactions, the nature of relations between the parties concerned and other information about transactions necessary to understand the financial status of the company, if the transactions were material or were concluded under unusual market conditions. Information on individual transactions may be generalised by type of transaction, except where additional information must be disclosed for the purpose of understanding the impact of transactions between related parties on the financial condition of the company. The term "related party" has the meaning used in the accounting standards used by the issuer.

There are no such transactions.

Information regarding compliance with the Corporate Governance Code

Information about the implementation of the provisions of the Corporate Governance Code is appended as an annex hereto.

Data about publicly disclosed information. The annual report must also contain a summary of information that the issuer has published in one or more Member States and third countries in the past 12 months for the purpose of discharging its obligations under applicable legal acts governing the securities market with the indication of where complete information may be obtained

In 2008 the Company published the following notices about material events:

30-12-2008 – Information about the decision of the National Control Commission for Prices and Energy
24-12-2008 – Regarding press release.
24-12-2008 – Regarding press release.
18-12-2008 – Information on the press release of the Ministry of Economy regarding tariffs.
04-12-2008 – Regarding appointment of the Chairman of the Board of AB Lietuvos Energija
04-12-2008 – Extraordinary general shareholders meeting was held on 4 December 2008
25-11-2008 – Nine-month interim financial statements of AB Lietuvos Energija for the year 2008
21-11-2008 – Supplemented agenda and draft resolutions of the convened extraordinary general shareholders meeting
31-10-2008 – The National Control Commission for Prices and Energy has established the price cap for electricity transmission and resolved to announce AB Lietuvos Energija electricity prices
29-10-2008 – Regarding foreign currency credit rating
24-10-2008 – On 23 October 2008, the Board of AB Lietuvos Energija revised the prices for electricity transmission, tariffs and the draft procedure for their application
21-10-2008 – A nine-month operating result for the year 2008
09-10-2008 – Convocation of the extraordinary general shareholders meeting
02-10-2008 – AB Lietuvos Energija and the European Bank for Reconstruction and Development signed a contract for allocation of funds for electricity grid project with Poland
30-09-2008 – On 29 September 2008, the Board of AB Lietuvos Energija approved the prices for electricity transmission, tariffs and the draft procedure for their application
29-08-2008 – Consolidated financial statements and interim report for H1 2008
22-07-2008 – Operating result of H1 2008
08-07-2008 – Regarding appointment of the General Director of AB Lietuvos Energija
08-07-2008 – Extraordinary general shareholders meeting was held on 8 July 2008
30-06-2008 – Extraordinary general shareholders meeting was held on 30 July 2008
26-06-2008 – CORRECTION: Additions to the agenda of the extraordinary general shareholders meeting of 8 July 2008
20-06-2008 – CORRECTION: Draft of a new version of the Company's Articles of Association to be submitted for approval at the extraordinary general shareholders meeting of 30 June 2008
18-06-2008 – CORRECTION: Additions to the agenda of the extraordinary general shareholders meeting of 8 July 2008
13-06-2008 – CORRECTION: Notification of the transactions of the Management
10-06-2008 – AB Lietuvos Energija received a notice of loss of voting rights
03-06-2008 – AB Lietuvos Energija received a notice of acquisition of voting rights
03-06-2008 – Notification of the transactions of the Management
03-06-2008 – Regarding the fact that a mandatory public offer will not be submitted
29-05-2008 – Regarding foreign currency credit rating
29-05-2008 – AB Lietuvos Energija interim financial statements for Q1 2007
28-05-2008 – Convocation of extraordinary general shareholders meetings
27-05-2008 – LEO LT, AB Shareholders Agreement was signed and the share capital was increased
20-05-2008 – Regarding the Chief Executive Officer of AB Lietuvos Energija
19-05-2008 – Articles of Association of the Lithuanian-Polish joint venture for power grids interconnection were signed in Warsaw
07-05-2008 – Regarding the transfer of state-owned shares to LEO LT, AB for the purpose of increasing its share capital
30-04-2008 – Agreements establishing the national investor LEO LT, AB have been signed
29-04-2008 – Extraordinary general shareholders meeting was held on 29 April 2008

24-04-2008 – Annual information for 2007
22-04-2008 – Publication of information regarding the approval by the Government of the Republic of Lithuania of the draft contract with UAB NDX Energija
18-04-2008 – Draft Resolutions of the General Shareholders Meeting scheduled for 29 April 2008
18-04-2008 – Operating result of Q1 2008
15-04-2008 – Regarding postponement of AB Lietuvos Energija profit allocation
09-04-2008 – Regarding information published in the mass media that AB Lietuvos Energija will not pay dividends
07-04-2008 – AB Lietuvos Energija implemented occupational health and safety management system OHSAS 18001:2007
21-03-2008 – Regarding the appraisal of AB Lietuvos Energija assets
21-03-2008 – Convocation of the general shareholders meeting
20-03-2008 – A feasibility study on synchronous interconnection of power grids of the Baltic States with UCTE was finalised
29-02-2008 – Interim consolidated financial statements of AB Lietuvos Energija for the year 2007
12-02-2008 – The Shareholders Agreement of the Lithuanian-Polish joint venture for power grids in terconnection was signed in Warsaw
06-02-2008 – Feasibility study on interconnection of Lithuanian and Swedish power grids was final ised
05-02-2008 – Operating result of 2007
04-02-2008 – An agreement on the preparation of the Environmental Impact Assessment Report on the new Nuclear Power Plant was signed
04-02-2008 – Regarding the Law Amending the Law on Nuclear Power Plant

All information about the material events published in 2008 is available on the website of Vilnius Stock Exchange at www.baltic.omxgroup.com/market/?pg=news and the Company's website at www.lietuvosenergija.lt.

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

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

PRINCIPLES/ RECOMMENDATIONS		COMMENTARY
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania, the general meeting of shareholders and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	NO	A supervisory body, the supervisory board, is not set up in the Company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	NO	A supervisory body, the supervisory board, is not set up in the Company.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and the chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	NO	The Chairman of the Board is also the Company's chief executive office.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	NO	Board members are informed about the Company's activities at the Board meeting.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	NO	Board members are the employees of the Company.

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	NO	Board members are the employees of the Company.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	NO	The Company has no established practices yet on the disclosure of information regarding independence of the members of the collegial body.

3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	NO	Board members are the employees of the Company.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	NO	The Company has no established practices yet on the formation of committees in the collegial bodies of the Company.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors.	NO	The Company has no established practices yet on the formation of committees in the collegial bodies of the Company.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	NO	The Company has no established practices yet on the formation of committees in the collegial bodies of the Company.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals from other parties, including the management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committees.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.

4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with the applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are. (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.	NO	The supervisory board of the parent company LEO LT, AB has set up an Audit Committee for the purpose of the provisions of Article 52 of the RoL on Audit.

4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	NO	The Company's collegial body does not conduct the assessment of its activities and the Company has no established practices yet in disclosure of respective information.
5.4. In order to co-ordinate cooperation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	NO	Only the Board is formed in the Company.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	NO	The criteria for transactions to be approved by the shareholders meeting are not set forth either in the Law on Companies or by the Articles of Association of the Company.
6.5. It is recommended that documents on the course of the general shareholder's meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also places on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	NO	The Company has no established ractices yet in disclosure of respective information
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	NO	The Company has no established practices yet to vote in general meetings via terminal equipment of telecommunications
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	NO	The Company has no established ractices yet in disclosure of respective information
8.2. Remuneration statement should mainly focus on directors' remuneration policy the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	NO	The Company has no established ractices yet in disclosure of respective information
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors; however, the remuneration statement should not contain any information which is not to be disclosed from the commercial pint of view.	NO	The Company has no established practices yet in disclosure of respective information

8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, *inter alia*, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	NO	The Company has no established practices yet in disclosure of respective information
8.5. Moreover, the information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	NO	The Company has no established practices yet in disclosure of respective information
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	NO	The Company has no established practices yet in disclosure of respective information
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.	NO	The Company has no established practices yet in disclosure of respective information

8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	NO	The Company does not apply such a scheme and has no established practices yet in disclosure of respective information.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	NO	The Company has no established practices yet in disclosure of respective information

BALANCE SHEETS AS OF 31 DECEMBER 2008
All amounts in LTL thousand, unless otherwise stated

ASSETS	Notes	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Non-current assets:					
Intangible assets	4	3,149	3,144	5,105	5,003
Property, plant and equipment	5	3,170,915	3,125,934	2,569,054	2,538,279
Investment property	6	3,919	21,779	-	5,763
Investments in subsidiaries	7	-	18,068	-	34,116
Investments in associates and joint ventures	7	25,699	24,760	23,237	22,822
Accounts receivable	8	624	624	1,978	1,978
Other financial assets		29	15	50	15
Total non-current assets:		**3,204,335**	**3,194,324**	**2,599,424**	**2,607,976**
		-	**-**	**-**	**-**
Current assets					
Inventories	9	6,010	4,526	12,838	6,144
Prepayments		2,050	1,615	2,772	2,137
Trade receivables	10	136,292	126,640	121,370	105,067
Other accounts receivable	11	17,118	16,773	11,805	11,485
Other financial assets	12	15,994	15,994	3	-
Term deposits	13	200	-	150	-
Cash and cash equivalents	14	70,457	69,606	18,318	14,566
Total current assets		**248,121**	**235,154**	**167,256**	**139,399**
TOTAL ASSETS		**3,452,456**	**3,429,478**	**2,766,680**	**2,747,375**
EQUITY AND LIABILITIES					
Capital and reserves:					
Share capital	15	689,515	689,515	689,515	689,515
Share premium		3	3	3	3
Revaluation reserve	2.2	492,723	483,230	-	-
Legal reserve	16	70,794	68,952	70,730	68,952
Other reserves	17	1,454,530	1,451,571	1,404,786	1,402,660
Retained earnings		(17,820)	(11,972)	47,335	48,911
Foreign currency translation reserve		(18)	-	(2)	-
Equity attributable to the shareholders of the Company		**2,689,727**	**2,681,299**	**2,212,367**	**2,210,041**
Minority interest		1	-	2	-
Total equity		**2,689,728**	**2,681,299**	**2,212,369**	**2,210,041**
Non-current liabilities:					
Borrowings	18	13,811	13,811	61,903	61,903
Bonds issued	19	-	-	25,896	25,896
Financial lease liabilities	20	1,894	-	-	-
Grants	21	66,339	66,309	36,669	36,617
Deferred income	26	14,329	14,329	13,620	13,620
Other non-current payables and liabilities	22	25,597	25,597	21,480	21,480
Deferred income tax liability	25	384,359	381,743	208,486	208,129
Total non-current liabilities		**506,329**	**501,789**	**368,054**	**367,645**
Current liabilities:					
Borrowings	18	271	-	2,022	2,022
Bonds issued	19	25,896	25,896	-	-
Financial lease liabilities	20	595	-	118	-
Trade payables	23	158,096	153,589	156,178	145,304
Advances received		1,563	3	5,433	2,180
Income tax payable		10,914	10,911	4,237	4,104
Provisions	36	26,009	26,009	-	-
Other payables and liabilities	24	33,055	29,982	18,269	16,079
Total current liabilities		**256,399**	**246,390**	**186,257**	**169,689**
Total liabilities		**762,728**	**748,179**	**554,311**	**537,334**
TOTAL EQUITY AND LIABILITIES		**3,452,456**	**3,429,478**	**2,766,680**	**2,747,375**

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008
All amounts in LTL thousand, unless otherwise stated

	Notes	Group 2008	Company 2008	Group 2007	Company 2007
Continuing operations					
Income					
Sales	26	1,455,887	1,455,887	1,111,116	1,111,116
Other operating income	28	74,403	26,407	89,543	22,350
		1,530,290	**1,482,294**	**1,200,659**	**1,133,466**
Operating expenses					
Purchase of electricity		(976,322)	(976,322)	(694,726)	(694,726)
Power reserve services		(97,463)	(97,463)	(82,396)	(82,396)
Transit cost		(7,127)	(7,127)	(6,996)	(6,996)
Depreciation and amortisation		(138,107)	(136,400)	(146,258)	(144,516)
Salaries and other related expenses		(85,060)	(64,500)	(73,974)	(53,096)
Repair and maintenance expenses		(27,940)	(28,949)	(36,094)	(36,687)
Other expenses		(133,957)	(87,784)	(92,030)	(48,172)
Total operating expenses		**(1,465,976)**	**(1,398,545)**	**(1,132,474)**	**(1,066,589)**
OPERATING PROFIT		**64,314**	**83,749**	**68,185**	**66,877**
Income from financing activities	29	2,569	3,065	662	945
(Expenses) from financing activities:					
Impairment of investments	7	-	(18,153)	-	(606)
Other (expenses) from financing activities	30	(2,667)	(2,598)	(6,078)	(5,980)
Share of profit (loss) of associates and joint ventures	7	(1,601)	-	(132)	-
PROFIT BEFORE TAX		**62,615**	**66,063**	**62,637**	**61,236**
Current year income tax expenses	25	(27,324)	(27,295)	(23,366)	(22,947)
Deferred income tax benefit (expenses)	25	6,387	6,143	11,548	11,493
NET PROFIT FROM CONTINUING OPERATIONS		**41,678**	**44,911**	**50,819**	**49,782**
Discontinued operations					
Profit/(loss) after tax for the year from discontinued operations	31	2,066	2,066	(2,431)	(2,431)
NET PROFIT		**43,744**	**46,977**	**48,388**	**47,351**
ATTRIBUTABLE TO:					
Shareholders of the Company		43,745	46,977	48,387	47,351
Minority		(1)	-	1	-
		43,744	**46,977**	**48,388**	**47,351**
Basic and diluted earnings per share (in LTL)	33	**0.06**		**0.07**	
Basic and diluted earning per share for continuing operations (in LTL)	33	**0.06**		**0.07**	

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

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008
All amounts in LTL thousand, unless otherwise stated

		Equity attributable to the shareholders of the Company									
Group	**Notes**	**Share capital**	**Share premium**	**Revaluation reserve**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Foreign currency translation reserve**	**Total**	**Minority interest**	**Total equity**
Balance as of 31 December 2006		**689,515**	**3**	**-**	**70,407**	**1,394,560**	**17,651**	**(6)**	**2,172,130**	**1**	**2,172,131**
Income (expense) for the year recognised directly in equity		-	-	-	-	-	-	4	4	-	4
Net profit for the year		-	-	-	-	-	48,387	-	48,387	1	48,388
Total income (expense) for the year		-	-	-	-	-	48,387	4	48,391	1	48,392
Dividends	34	-	-	-	-	-	(8,154)	-	(8,154)	-	(8,154)
Transfer to reserves	17	-	-	-	325	12,386	(12,711)	-	-	-	-
Transfer from reserves	17	-	-	-	(2)	(2,160)	2,162	-	-	-	-
Balance as of 31 December 2007		**689,515**	**3**	**-**	**70,730**	**1,404,786**	**47,335**	**(2)**	**2,212,367**	**2**	**2,212,369**
Revaluation property, plant and equipment, net of deferred tax effect		-	-	492,723	-	-	-	-	492,723	-	492,723
Other income (expense) for the year recognised directly in equity	25	-	-	-	-	-	(59,092)	(16)	(59,108)	-	(59,108)
Total income (expense) for the year recognised directly in equity		-	-	492,723	-	-	(59,092)	(16)	433,615	-	433,615
Net profit for the year		-	-	-	-	-	43,745	-	43,745	(1)	43,744
Total income (expense) for the year		-	-	492,723	-	-	(15,347)	(16)	477,360	(1)	477,359
Dividends	34	-	-	-	-	-	-	-	-	-	-
Transfer to reserves	17	-	-	-	64	51,496	(51,560)	-	-	-	-
Transfer from reserves	17	-	-	-	-	(1,752)	1,752	-	-	-	-
Balance as of 31 December 2008		**689,515**	**3**	**492,723**	**70,794**	**1,454,530**	**(17,820)**	**(18)**	**2,689,727**	**1**	**2,689,728**

(Continued on the next page)

Company	Notes	Share capital	Share premium	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total equity
Balance as of 31 December 2006		**689,515**	**3**	**-**	**68,952**	**1,392,429**	**18,385**	**2,169,284**
Property, plant and equipment revaluation result recognised directly in equity		-	-	-	-	1,560	-	1,560
Disposals of non-current assets recognised directly in equity		-	-	-	-	(1,560)	1,560	-
Total income (expense) for the year recognised directly in equity		-	-	-	-	-	1,560	1,560
Net profit for the year		-	-	-	-	-	47,351	47,351
Total income (expense) for the year		-	-	-	-	-	48,911	48,911
Dividends	34	-	-	-	-	-	(8,154)	(8,154)
Transfer to reserves	17	-	-	-	-	12,231	(12,231)	-
Transfer from reserves	17	-	-	-	-	(2,000)	2,000	-
Balance as of 31 December 2007		**689,515**	**3**	**-**	**68,952**	**1,402,660**	**48,911**	**2,210,041**
Revaluation property, plant and equipment, net of deferred tax effect		-	-	483,230	-	-	-	483,230
Other income (expense) for the year recognised directly in equity	25	-	-	-	-	-	(58,949)	(58,949)
Total income (expense) for the year recognised directly in equity		-	-	483,230	-	-	(58,949)	424,281
Net profit for the year		-	-	-	-	-	46,977	46,977
Total income (expense) for the year		-	-	483,230	-	-	(11,972)	471,258
Transfer to reserves	17	-	-	-	-	50,611	(50,611)	-
Transfer from reserves	17	-	-	-	-	(1,700)	1,700	-
Balance as of 31 December 2008		**689,515**	**3**	**483,230**	**68,952**	**1,451,571**	**(11,972)**	**2,681,299**

(The end)

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

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008
All amounts in LTL thousand, unless otherwise stated

	Notes	Group 2008	Company 2008	Group 2007	Company 2007
Net profit from continuing operations		41,678	44,911	50,819	49,782
Net profit (loss) from discontinued operations	31	2,066	2,066	(2,431)	(2,431)
Net profit		**43,744**	**46,977**	**48,388**	**47,351**
Adjustments for non-cash items and other adjustments:					
Depreciation and amortisation	4,5,6	139,737	138,208	147,552	145,624
(Income) from grants and connection of new users	21,26	(2,415)	(2,393)	(1,529)	(1,504)
Change in deferred tax liability	25	(6,387)	(6,143)	(11,547)	(11,493)
Impairment of assets (reversal)		28,796	30,549	1,355	1,796
Share of profit of associates and joint ventures	7	1,601	-	132	-
Income tax expense	25	27,324	27,295	23,366	22,947
Provision expenses	36,22	27,629	27,629	-	-
Loss from disposal/write-off of non-current assets (except financial assets)		4,468	4,182	1,123	1,249
Elimination of financing and investment activity results:					
- Dividends		-	(633)	-	(413)
- (Positive) negative effect of foreign currency exchange, net		2	(5)	380	373
- Financing expenses		1,676	1,616	5,428	5,410
- Financing (income)		(1,539)	(1,476)	(542)	(467)
- Other (income) expenses from financing activity		(970)	(762)	127	131
Changes in working capital					
Decrease (increase) in inventories		2,862	1,156	(177)	295
Decrease (increase) in prepayments		722	522	(159)	216
(Increase) in trade receivables		(15,288)	(21,573)	(29,192)	(20,535)
(Increase) decrease in other receivables		(9,004)	(8,937)	3,208	3,447
(Increase) decrease in other current assets		3	-	301	293
Increase in trade payables and advances received		1,438	9,498	22,835	21,463
Increase (decrease) in payroll-related liabilities		687	425	583	(200)
Increase in other accounts payable		14,408	13,733	5,710	347
Interest received		1,581	1,517	566	491
Interest (paid)		(1,802)	(1,742)	(5,440)	(5,421)
Income tax (paid)		(20,379)	(20,208)	(20,464)	(20,130)
Net cash flows from operating activities		***238,894***	***239,435***	***192,004***	***191,270***
Cash flows (to) investing activities					
(Acquisition) of non-current assets		(121,202)	(119,340)	(141,692)	(141,162)
Proceeds from sale of non-current assets		86	-	819	827
Loans (granted)		(30,000)	(30,000)	(3,222)	(3,222)
Collected loans		31,552	31,552	299	299
Term deposits		(50)	-	-	-
(Acquisition) of bonds	12	(15,994)	(15,994)	-	-
(Acquisition) of investments		(1,020)	(1,020)	-	(801)
Proceeds from sales of investments		-	-	886	886
Dividends received		-	633	-	413
Net cash flows (to) investing activities		***(136,628)***	***(134,169)***	***(142,910)***	***(142,760)***
Cash flows (to) financing activities					
Proceeds from loans		24,337	24,066	413,862	413,862
(Repayment) of loans		(74,180)	(74,180)	(440,958)	(440,958)
Financial lease (payments)		(157)	-	(263)	-
Dividends (paid)		(112)	(112)	(8,074)	(8,074)
Realised derivative financial instruments		-	-	(63)	(63)
Other cash flows from financing activities		(15)	-	(68)	(68)
Net cash flows (to) financing activities		***(50,127)***	***(50,226)***	***(35,564)***	***(35,301)***
Net increase in cash and cash equivalents		**52,139**	**55,040**	**13,530**	**13,209**
Cash and cash equivalents at the beginning of the year		**18,318**	**14,566**	**4,788**	**1,357**
Cash and cash equivalents at the end of the year		**70,457**	**69,606**	**18,318**	**14,566**
Additional cash-flow information					
Non-cash investing and financing activity:					
Property, plant and equipment acquired under financial lease		2,528	-	45	-
Increase in share capital of associate paid for by set off against loan receivable balance	7	-	3,042	-	-

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

EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2008
All amounts in LTL thousand, unless otherwise stated

1 General information

AB Lietuvos Energija is a public limited liability company registered in the Republic of Lithuania. The address of its registration is: Žvejų Str. 14, LT-09310, Vilnius, Lithuania. AB Lietuvos Energija (hereinafter the Company) is a limited liability profit-seeking entity, registered at the Register of Legal Persons managed by VĮ Registrų Centras. The Company's registration date is 4 December 1995, No. BĮ 99-74, company code 220551550, VAT payer's code LT205515515. The Company is established for an unlimited period.

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

The share capital of the Company did not change in 2008 and 2007, and as of 31 December 2008 amounted to LTL 689,515,435 and was divided into 689,515,435 ordinary registered shares with the nominal value of one Litas each. All the shares are fully paid. The shares of the Company are traded on Vilnius Stock Exchange in the current trading list. In 2008 and 2007, the Company did not hold its own shares.

In its resolution No. 364 dated 24 April 2008 the Government of the Republic of Lithuania declared that 664,700,833 ordinary registered shares of AB Lietuvos Energija with the nominal value of 1 LTL each, owned by the state are transferred as the contribution in-kind of the state represented by the Ministry of Economy for the increased share capital of LEO LT, AB. The Shareholders Agreement of the national investor company LEO LT, AB was signed on 27 May 2008. Immediately after that, the extraordinary general shareholders' meeting of LEO LT, AB was convened where it was decided to increase the share capital of LEO LT, AB by the in-kind contributions of the shareholders – shares of AB VST, AB Rytų skirstomieji tinklai and AB Lietuvos Energija. The main shareholder of the Company is LEO LT, AB, owning 96.4012 % of the Company's shares as of 31 December 2008. The remaining 3.5988 % of the Company's shares are held by other shareholders.

Main activities of the Company in 2008 and 2007 were – transmission system operator, market operator, electricity production and electricity export. Apart from 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. On 22 March 2002, the Company obtained a licence for energy transmission, which is valid for an unlimited period (unless it is suspended or cancelled). Apart from this licence, the Company has permits of unlimited validity to engage in production, import and export of electricity.

As of 31 December 2008 the Company had two branches, Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant, operating according to the regulations approved by the Board of the Company. As described in Note 36 of the explanatory notes, according to the agreement signed by LEO LT, AB shareholders, Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant have to be transferred to the state of Lithuania for a symbolic fee of 1 LTL by 27 May 2010.

At the date of these financial statements the Company directly participated (controlled or had significant influence) in the management of these companies: AS Nordic Energy Link, UAB Energetikos Pajėgos, UAB Geoterma, UAB Kruonio Investicijos and UAB Kauno Energetikos Remontas. Indirectly, through UAB Kauno Energetikos Remontas, the Company had majority of votes in UAB Gotlitas and OOO Kaliningradskij Energoremont.

Consolidated AB Lietuvos Energija and its subsidiaries' financial statements and separate financial statements of AB Lietuvos Energija are presented in these financial statements. As of 31 December 2008 and 2007 the Group consisted of AB Lietuvos Energija and the following directly and indirectly controlled subsidiaries:

Entity	Entity's registration address	Share of the stock held by the Group as of 31 December 2008 and 2007	Share capital of subsidiary as of 31 December 2008	Profit (loss) for the year 2008	Total equity as of 31 December 2008	Main activities
UAB Energetikos Pajėgos	T.Masiulio Str. 16D, Kaunas, Lithuania	100 %	430	35	593	Design of energy projects
UAB Kauno Energetikos Remontas	Chemijos Str. 17, Kaunas, Lithuania	100 %	31,341	(16,106)	26,457	Repair of energy equipment, production of metal constructions
UAB Kruonio Investicijos	Kruonio II vil., Kaišiadoriai distr., Lithuania	100 %	2,361	(552)	1,754	Administration of public-recreational projects
UAB Gotlitas	R.Kalantos Str. 119, Kaunas, Lithuania	100 %	1,450	(157)	2,056	Accommodation services, sales
OOO Kaliningradskij Energoremont	Jaltinskaja Str. 66, Kaliningrad, Russia	99 %	1 (9,900 RUB)	(79)	27	Repair of energy equipment

As of 31 December 2008, the number of employees of the Group was 1,409 (as of 31 December 2007 – 1,752). As of 31 December 2008, the number of employees of the Company was 967 (as of 31 December 2007 – 1,130).

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for 2008 are as follows:

2.1 Basis of preparation

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

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment that have been measured at fair value as of 31 December 2008 and at cost as of 31 December 2007, less accrued depreciation and estimated impairment loss (see Note 2.8), and financial derivative instruments that are measured at fair value.

Financial year of the Company and other Group companies coincides the calendar year.

The Company's management authorised these financial statements on 5 March 2009. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

2.2 Change of accounting principles

Accounting principles applied in preparing the financial statements are consistent with those of the previous financial year except as follows:

a) Adoption of new and/or changed IFRSs and International Financial Report Interpretation Committee (IFRIC) interpretations

The Group/the Company has adopted the following new and amended IFRS and IFRIC interpretations during the current year:

• Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets;
• IFRIC 11 IFRS 2 – Group and Treasury Share Transactions.

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets. Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group/Company did not have financial instruments caught by these amendments.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions. The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group/Company has not issued instruments caught by this interpretation.

b) Change of property, plant and equipment accounting principle

As of December 2008, with a purpose to unify accounting principles applied by the LEO LT, AB group companies, the management of the Company decided to change its accounting policy for the measurement of all groups of property plant, and equipment (except Hydro Power Plant and Pumped Storage Power Plant) from cost method to revaluation method.

Assets' valuation was performed by independent valuers as of 31 December 2008. In accordance with IAS 8 requirements, the accounting principle was changed prospectively, applying it from the earliest possible date – 31 December 2008. The effect of correction of accounting principle on the balance sheet as of 31 December 2008 and the income statement was as follows:

2 Accounting principles (cont'd)

2.2 Change of accounting principles (cont'd)

b) Change of property, plant and equipment accounting principle (cont'd)

Group	Balance before change of accounting principle	Effect of change of accounting principle	Balance reported in 2008 financial statements
Property, plant and equipment (excluding Hydro Power Plant and Pumped Storage Power Plant assets):			
Land	119	167	286
Buildings	131,997	60,924	192,921
Structures and machinery	1,649,081	533,453	2,182,534
Vehicles	9,577	19	9,596
Other property, plant and equipment	55,644	6,863	62,507
Construction in progress	167,104	342	167,446
	2,013,522	601,768	2,615,290
Capital and reserves:			
Revaluation reserve	-	492,723	492,723
Net result for the year 2008 (effect of impairment net of deferred tax)	55,042	(11,298)	43,744
Non-current liabilities			
Deferred income tax liability	264,016	120,343	384,359

Company	Balance before change of accounting principle	Effect of change of accounting principle	Balance reported in 2008 financial statements
Property, plant and equipment (excluding Hydro Power Plant and Pumped Storage Power Plant assets):			
Land	119	167	286
Buildings	101,303	54,956	156,259
Structures and machinery	1,644,274	531,646	2,175,920
Vehicles	8,343	-	8,343
Other property, plant and equipment	55,649	6,269	61,918
Construction in progress	167,800	(217)	167,583
	1,977,488	592,821	2,570,309
Capital and reserves:			
Revaluation reserve	-	483,230	483,230
Net result for the year 2008 (effect of impairment net of deferred tax)	55,951	(8,974)	46,977
Non-current liabilities			
Deferred income tax liability	263,179	118,564	381,743

2.3 Standards issued but not yet effective

The Group/Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 January 2009). The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

- Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2009). The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group/Company, as the Group does not have share-based payments.

2 Accounting principles (cont'd)

2.3 Standards issued but not yet effective (cont'd)

• Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009 once adopted by the EU). Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

• IFRS 8 *Operating Segments* (effective for financial years beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 *Segment Reporting*. The Group expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

• Amendment to IAS 1 *Presentation of Financial Statements* (effective for financial years beginning on or after 1 January 2009). This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

• Amendment to IAS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

• Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation *(*effective for financial years beginning on or after 1 January 2009). The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group/Company, as the Group has not issued such instruments.

• Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items *(*effective for financial years beginning on or after 1 July 2009). The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group/Company, as the Group has not entered into any such hedges.

• IFRIC 13 *Customer Loyalty Programmes* (effective for financial years beginning on or after 1 July 2008). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Group/Company does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group.

• IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2009). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group/ Company does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Group.

• IFRIC 15 *Agreement for the Construction of Real Estate* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU). The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group/Company does not conduct such activity, therefore, this interpretation will not have an impact on the consolidated financial statements.

• IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for financial years beginning on or after 1 October 2008 once adopted by the EU). The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the consolidated financial statements because the Group does not have hedges of net investments.

• IFRIC 17 *Distributions of Non-cash Assets to Owners (*effective for financial years beginning on or after 1 July 2009 once adopted by the EU). The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. The Group/Company has not yet evaluated the potential impact of IFRIC 17 on the financial statements.

• IFRIC 18 *Transfers of Assets from Customers* (effective for transfers of assets received on or after 1 July 2009 once adopted by the EU). The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The Group/Company has not yet evaluated the potential impact of IFRIC 18 on the financial statements.

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Group anticipates that these amendments to standards will have no material effect on the financial statements.

• *IFRS 7 Financial Instruments: Disclosures.* Removal of the reference to ‘total interest income’ as a component of finance costs.
• *IAS 1 Presentation of Financial Statements*. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
• *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.* Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
• *IAS 10 Events after the Reporting Period*. Clarification that dividends declared after the end of the reporting period are not obligations.
• *IAS 16 Property, Plant and Equipment.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term “net selling price” with “fair value less costs to sell”.
• *IAS 18 Revenue.* Replacement of the term ‘direct costs’ with ‘transaction costs’ as defined in IAS 39.
• *IAS 19 Employee Benefits.* Revised the definition of ‘past service costs’, ‘return on plan assets’ and ‘short term’ and ‘other long-term’ employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
• *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance.* Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
• *IAS 23 Borrowing Costs.* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
• *IAS 27 Consolidated and Separate Financial Statements.* When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

• *IAS 28 Investment in Associates.* If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.

• *IAS 29 Financial Reporting in Hyperinflationary Economies.* Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.

• *IAS 31 Interest in Joint ventures:* If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

• *IAS 34 Interim Financial Reporting.* Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.

• *IAS 36 Impairment of Assets.* When discounted cash flows are used to estimate ‘fair value less cost to sell’ additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ‘value in use’.

• IAS 38 *Intangible Assets*. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

- *IAS 39 Financial Instruments: Recognition and Measurement.* Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- *IAS 40 Investment Property.* Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- *IAS 41 Agriculture.* Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.
- IFRIC 12 *Service Concession Arrangements* (effective once adopted by the EU).This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group/Company is an operator and, therefore, this interpretation has no impact on the Group.

2.4 Consolidation principles

The consolidated financial statements of the Group include AB Lietuvos Energija and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year, using consistent accounting policies.

Subsidiaries are consolidated from the date from which effective control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies are eliminated.

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 attributable 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.

2.5 Business combinations

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

Goodwill acquired in a business combination is 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. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.
Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2 Accounting principles (cont'd)

2.5 Business combinations (cont'd)

The excess of the acquired interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the investment remaining after the reassessment of the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination is recognised in the income statement immediately.

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

2.6 Investment in subsidiaries (the Company)

Subsidiary is an entity directly or indirectly controlled by a parent company. In the parent company's balance sheet investments in subsidiaries are stated at cost less impairment, where the investment's carrying amount in the parent's balance sheet exceeds its estimated recoverable amount.

2.7 Investment in associates and joint ventures

An associate is an entity over which the Group/Company has significant influence and that is neither a subsidiary nor a joint venture. Significant impact is an ability to take part in making financial and operating policy decisions but is not control or joint control over those policies. The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entity.

The investments in associates and joint ventures are carried in the parent company‘s balance sheet at cost less impairment losses, where the investment's carrying amount exceeds its estimated recoverable amount.

In the consolidated financial statements the investments into associated companies and joint ventures are accounted at equity method, except when the investment is classified as held-for-sale, when it is recognised according to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates or joint ventures 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 investee, less any impairment in the value of individual investments. Losses of an associate or joint venture in excess of the Group's interest in that associate/joint venture are not recognised, unless the Group has assured legal or constructive obligations or made payments on behalf of the associate/joint venture.

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/joint venture recognised at the date of acquisition is recognised 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 recognised immediately in profit or loss.

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

Financial guarantees provided for the liabilities of the associates during the initial recognition are accounted at estimated fair value, being the difference between the fair value of the liabilities with the guarantee and the fair value of such liabilities without the guarantee, as the investment into associates and financial liability in the balance sheet. Subsequent to initial recognition this financial liability is amortised and recognised as income depending on the related amortisation / repayment of the associate's financial liability to the bank. If there is a possibility that the associate may fail to fulfil its obligations to the bank, a financial liability of the Company is accounted for at the higher of amortised value and the value estimated according to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

2.8 Property, plant and equipment and intangible assets

Property, plant and equipment

Assets are attributed to property, plant and equipment if their useful life exceeds one year.

As described in Note 2.2, since 31 December 2008 the Group has changed the accounting principle applied to property, plant and equipment (except for Hydro Power Plant and Pumped Storage Power Plant) from acquisition cost to revalued cost method.

Before 31 December 2008 property, plant and equipment, was carried at cost less accumulated depreciation and accumulated impairment losses.

Starting 31 December 2008 property, plant and equipment, except for Hydro Power Plant and Pumped Storage Power Plant which are still accounted for at cost less accumulated depreciation and impairment, are shown at revalued amounts, based on periodic (at least every 5 years) valuations by external independent appraisers, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

Increases in the carrying amount arising on the first revaluation of property, plant and equipment are credited directly to equity under the heading of revaluation reserve (Note 2.2) and decreases are recognised in the income statement. Decreases arising on subsequent revaluations that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement. Revaluation increases in property plant and equipment value that offset previous decreases taken to profit or loss are taken to income statement. All other increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred tax.

Construction in progress represents property, plant and equipment under construction. Cost of such assets includes design, construction works, plant and equipment being installed, and other directly attributable costs.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Cost of intangible assets acquired through business combinations is its fair value at acquisition date. Intangible assets are recognised if there is evidence that the Group/Company will receive economic benefits related to these assets, and its value can be reliably estimated.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any (the Group/Company does not have intangible assets with indefinite useful lives).

Depreciation and amortisation

Depreciation (amortisation) of non-current assets, except construction in progress, is calculated using the straight-line method over estimated useful lives of the assets. The estimated useful lives, residual values and depreciation method are reviewed at each year-end to ensure that they are consistent with the expected pattern of economic benefits from these assets. The effect of changes in estimates, if any, is accounted for on a prospective basis. Estimated useful lives of non-current assets are as follows:

Property, plant and equipment and intangible assets	Ranges of useful lives (years)
Buildings	20 - 75
Structures, machinery and equipment:	
- electricity and communication facility	20 - 25
- electricity equipment	15 - 35
- other equipment	5 - 20
Power plant assets:	
- hydrotechnical waterway structures and equipment	75
- penstocs	50
- hydrotechnical turbine	25 - 40
- other equipment	8 - 15
Vehicles	4 - 10
Other property, plant and equipment:	
- computer hardware and communication equipment	3 - 10
- inventory, tools	4 - 10
Intangible assets	3 - 4

Useful lives of property, plant and equipment, which are highly important for the main activity of the Group/Company, 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 acquired under finance lease are depreciated over their expected useful life on the same basis as owned assets.

Profit or loss resulting from sale of non-current assets is calculated as the difference between the amounts received (receivable) and the carrying value of the disposed asset and is recognised in the income statement.

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 Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised in the income statement as incurred.

2.9 Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Group and the Company reviews the carrying amounts of its property, plant and equipment 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 Group and the Company 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.

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 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 recognised 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (without exceeding the sum of previous value impairment) as described in Note 2.8.

2.10 Investment property

Investment property of the Group/Company, which consists of investments in buildings held to earn rental revenue or expecting change in their value, initially is recognised at acquisition cost, including transaction costs. Subsequently all investment property is carried at cost less accumulated depreciation and impairment loss.

Transfers to and from investment property are made only when there is an evidence of change in an asset's use.

2.11 Financial assets

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The Group/Company determines the classification of its financial assets based on its nature and purpose at initial recognition.

Financial assets are recognised on a trade date basis where the purchase or sale process is under a contract, which terms require delivery of the financial assets within the timeframe established by the market concerned. Financial assets are recognised initially at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company's/Group's financial assets include cash and short-term deposits, trade and other receivables, borrowings and investments in bonds.

The subsequent measurement of financial assets depends on their classification as follows:

<u>Financial assets at fair value through profit or loss</u>

Financial assets at fair value through profit or loss include financial assets held for trading, i.e. acquired for selling in the near term. Gain or loss from change in value of such assets is recognised in income statement.

The Group/Company has not designated any financial assets to this group.

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

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Company have the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income when the investments are impaired, derecognised or amortised.

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such assets are carried at amortised cost using the effective interest method (except for current receivables when the recognition of interest income would be immaterial), less any recognised impairment, which reflects irrecoverable accounts. Gains and losses are recognised in income statement when the loans and receivables are derecognised, impaired or amortised.

<u>Available-for-sale financial assets</u>

Available-for-sale financial assets are non-derivative financial assets that are designated as held-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value. Unrealised gains or losses (except impairment gain or loss and gain or loss from foreign currency exchange), related to change in fair vale, are recognised as a separate component of equity until the investment is disposed or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is recognised in the income statement.

The Group/Company has not designated any financial assets to this group.

Effective interest rate method

Effective interest rate method is used to calculate amortised cost of financial assets and allocate interest income over the relevant period. The effective interest rate exactly discounts estimated future cash flows through the expected life of the financial asset.

Impairment of financial assets

At each reporting date the Group and the Company assesses whether there is an indication that an asset may be impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankrupcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, estimated using the effective interest rate.

The carrying amount of the financial asset is directly reduced by the amount of estimated impairment loss, except for trade receivables, for which impairment is recorded through allowance account. Impaired accounts receivable are written-off when they are assessed as uncollectible.

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 recognised, the previously recognised impairment loss is reversed through the income statement. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired;
- the Group/Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group/Company has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group/Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's/Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group/Company could be required to repay.

2.12 Inventories

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realisable value. Acquisition cost of inventories includes acquisition price and related taxes, and costs associated with bringing inventory into their current condition and location. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks, callable deposits and other highly liquid investments (up to 3 months original maturity) that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are recognised in balance sheet as current borrowings.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturity up to 3 months.

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

Recognition of instruments as debt or equity instruments

Debt or equity instruments are classified to financial liabilities or to equity based on the content of the contractual arrangement.

Equity instruments

Equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company 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 financial liabilities at fair value through profit or loss, or other financial liabilities. The Group/Company does not have any financial liabilities at fair value through profit or loss.

Other financial liabilities

Other financial liabilities, including borrowings, are recognised at fair value, less transaction costs.

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Interest expenses are recognised using the effective interest rate method (see Note 2.11).

If the financing agreement signed before the balance sheet date proves that the liability was non-current as of the date of the balance sheet, that financial liability is classified as non-current.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is settled, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

2.15 Foreign currency

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions as set by the Bank of Lithuania, which approximates market rates. Monetary assets and liabilities are translated to Litas at exchange as of the balance sheet date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the income statement of the reporting period.

Starting from 2 February 2002, Lithuanian Litas is pegged to euro at the rate of 3.4528 Litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania. The applicable rates used for principal currencies were as follows:

As of 31 December 2008			As of 31 December 2007		
1 EUR	=	3.4528 LTL	1 EUR	=	3.4528 LTL
1 LVL	=	4.8872 LTL	1 LVL	=	4.9567 LTL
100 RUB	=	8.3337 LTL	100 RUB	=	9.6085 LTL
10 SEK	=	3.1505 LTL	10 SEK	=	3.6437 LTL
1 USD	=	2.4507 LTL	1 USD	=	2.3572 LTL
10 EEK	=	2.2067 LTL	10 EEK	=	2.2067 LTL

Separate financial statements of the entities of the Group are presented in the main currency of the economic environment in which the entity operates (functional currency). In consolidated financial statements financial results of each Group company are presented in Litas, which is a functional currency of the Company and the presentation currency of the consolidated Group's financial statements.

When preparing separate financial statements of Group companies, transactions denominated in currencies other than functional currency of the company (in foreign currencies) are carried at the currency rate prevailing at the date of transaction. At each balance sheet date monetary items denominated in foreign currencies are translated using the exchange rate at the balance sheet date. Non-monetary denominated in foreign currency assets that are measured at fair value are transferred using the exchange rate as of the date the fair value was determined. Non-monetary assets carried at cost and denominated in foreign currency are not translated.

The assets and liabilities (including comparative figures) of foreign subsidiaries are translated into Litas for the preparation of consolidated accounts using the rate of exchange as of the balance sheet date. Income and expenses (including comparative figures) are translated to Litas using the average currency rate of the period, unless there were significant fluctuations of the currency rate during the reporting period in which case rate ruling at the date of transaction is applied. Currency exchange rate differences, if any, are recognised in equity, foreign currency exchange reserve. These changes are recognised in the income statement for the period when the foreign subsidiary is disposed.

2.16 Grants

Asset-related grants

Government and the European Union grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Grants are initially recorded as liability at fair value of the asset and later recognised as revenue, reducing the depreciation charge of related of asset over the expected useful life of the asset.

Income-related grants

Government and the European Union grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

2 Accounting principles (cont'd)

4.17 Provisions

Provisions are recognised when the Group/Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group/Company expects that provision amount in part or in full will be compensated, e.g. by insurance, compensation to be received is recorded as a separate asset, but only when it is virtually certain. Expenses related to provisions are recorded in the income statement, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Provision for pension payments

Each employee is entitled to 2 months salary payment when leaving the job at or after the start of pension period according to Lithuanian legislation. Actuarial calculations are made to determine liability for this pension payment. The liability is recognised at present value discounted using market interest rate.

2.18 Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Lease is recognised as financial lease, when all the risks and benefits incidental to ownership of the leased item are transferred to the lessee. Operating lease is the lease that cannot be classified as finance lease.

The Group and the Company as a lessor

Operating lease income is recognised on a straight-line basis over the lease term.
The Group and the Company as a lessee

Financial leases are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Respective lease liability is recorded in the balance sheet. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Operating lease payments are recognised as expenses in profit or loss on a straight-line basis over the lease term.

2.19 Business and geographical segments

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

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

2.20 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group/Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, net of value added tax and discounts directly related to sales. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from sales of electricity

Revenue from electricity acquired in auction, export electricity and public service obligations (PSO) electricity sales is recognised when substantially all risks and rewards related to the object of sale have been transferred to the buyer.

Revenue from electricity related services

Revenue from electricity transmission and other electricity related services is recognised when the service is rendered.

Tariff regulation

Tariffs for electricity transmission services and PSO are regulated by the National Control Commission for Prices and Energy (hereinafter the Commission) by establishing the upper limit of the tariff. Specific prices for transmission and PSO services are established by the supplier of the service within the limits approved by the Commission.

Tariffs of electricity sold by the producers and independent suppliers as well as tariffs for power reserves are not regulated except the cases when the producer or supplier holds more than 25 % of the market. In latter case, the tariff setting is supervised by the Commission.

Tariffs for imported and exported electiricity are not regulated.

PSO service fees are the fees paid to the suppliers of electricity under public service obligations scheme. Tariffs are regulated by the Commission. If at the end of the calendar year fees collected by the Company from the users of the electricity and operators of the supply networks for PSO related services exceed or were less than the actual payments for PSO, the difference needs to be taken into account when setting the tariff for PSO services for the next year. The respective regulatory assets or liabilities are not recorded in the financial statements.

Connection of new users

Contributions received for connection of the new customers initially are recognised as deferred revenue and subsequently recognised as income over the same period during which the related costs of installation are charged. The related costs of installation, which include cost of property, plant and equipment and other costs are capitalised and depreciated over the estimated useful lives of the capitalised assets.

Repair service revenue

Revenue from customer specific agreements/projects, i.e. repair services (Note 28), is recognised based on the proportion of the work completed, which is estimated by comparing actually incurred costs on the project with the project's total estimated cost. Expected change in the profitability is accounted in the income statement when such change is determined. Projects are reviewed periodically and if determined that a contract will be loss-making, respective provisions are accounted for.

Other income

Interest income is accrued on a timely basis, considering the outstanding amount and the applicable interest rate. Received interest is recorded in the cash flow statement as cash flows from operating activity.

Dividend income is recognised when the shareholders' rights to receive payment have been established. Received dividends are recorded in the cash flow statement as the cash flows from investing activities. Dividends of subsidiaries, attributable to the parent company, are eliminated in the consolidated financial statements.

Income and expenses related to the IT services provided by the Group, as well as related to the summerhouses owned by the Group and the sales and lease of the non-current assets are accounted as other operating income and expenses.

Expense recognition

Expenses are recognised in the income statement on the basis of accrual as incurred.

2.21 Financing costs

Financing costs are recognised in the income statement based on accrual principle, as incurred.

2.22 Income tax

Income tax expense represents the sum of the current income tax and deferred income tax.

Income tax

The current income tax is based on taxable pre-tax profit for the year, excluding the items of income or expense that are not taxable or deductable. The tax rates used to compute the income tax expenses are those that are enacted by the balance sheet date. In 2008 the income tax rate in Lithuania was 15 %. In 2007 along with the corporate income tax (15 %) companies had to pay an additional 3 % temporary social tax calculated based on the same basis as income tax. Starting 1 January 2009 a new tax rate of 20 % is to be applied.

Deferred tax

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their amounts used for income tax purposes. Deferred tax liabilities are recognised for all temporary differences that will subsequently increase taxable profit, and deferred tax assets are recognised to the extent they are expected to reduce taxable profit in the future. Such assets and liabilities are not recognised if temporary differences are related to goodwill (or negative goodwill), or if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.

The deferred income tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to realise all or part of the deferred income tax asset.
Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled.

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.

Current income tax and deferred income tax charge for the period

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

On transition to IFRS, the Group and the Company treated revalued amounts of property, plant and equipment as a deemed cost. As the tax base of the asset carried at deemed cost on transition to IFRS remains at original cost (or an amount based on original cost), the pre-transition revaluation gave rise to a temporary difference associated with the asset and deferred tax liability has been accounted for. If, after transition, this deferred tax liability is required to be remeasured (e.g. because of a change in tax rate), the Group and the Company accounts for it directly under the caption of retained earnings of the balance sheet.

2.23 Earnings per share

Basic earning per share is calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. Provided that the number of shares changes without causing a change in the economical resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period presented.

Weighted average number of shares, based on which earnings per share are calculated, was 689,515,435 in 2008 and 2007. As of 31 December 2008 and 31 December 2007 as well as during 2008 and 2007 the Company had no dilutive options outstanding, thus basic and diluted earnings per share were the same.

2.24 Contingencies

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

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

2.25 Subsequent events

Post balance sheet events that provide additional information about the Group's and the Company'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.

2.26 Related parties

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

2.27 Offsetting figures

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain accounting standards specifically require such set-off.

2.28 Comparative figures

When preparing the financial statements, the Group and the Company made the following reclassifications in the balance sheet as of 31 December 2007 to conform the presentation of the comparative information with the financial information as of 31 December 2008:

- LTL 5,763 thousand was reclassified from property, plant and equipment to investment property in the Company's balance sheet;
- LTL 14,202 thousand connection fees received from the new clients in the Group's and the Company's balance sheet were reclassified from grants to deferred income (Note 21);
- LTL 2,197 thousand in the Group's and the Company's balance sheet was added to the carrying value of investments in associates and a respective guarantee liability was recorded to reflect the fair value of the guarantee granted to the bank in respect of the liabilities of the associate (Note 36);
- LTL 19,283 thousand was reclassified from Advances received (current liabilities) to Other non-current payables and liabilities in the Group's and the Company's balance sheet as they represent the advances received which will be transferred to deferred revenue after the connection of the users to electricity network services will be performed.

3 Significant accounting judgements and estimates

The preparation of financial statements according to International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The significant areas of estimation used in the preparation of these financial statements relate to fair value evaluation and depreciation of property, plant and equipment and investment property (Notes 2.2, 2.8, 5 and 6), evaluation of impairment for accounts receivable and investments (Notes 2.11, 7, 10 and 11), percentage of completion evaluation for repair service contracts (Notes 2.20. and 28), evaluation of provisions (Notes 2.17. and 22) and disclosure of contingent liabilities (Note 36). Future events may cause the assumptions used in arriving at the estimates to change. The effect of such changes in estimates will be recorded in the financial statements when determinable.

<u>Depreciation rates of property, plant and equipment</u>

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.

Valuation of property, plant and equipment and investment property

The fair value of the Group's and the Company's property, plant and equipment and investment property as of 31 December 2008 was determined by independent asset valuers, who used comparative prices method or depreciated replacement value or discounted cash flows methods to determine the fair value of the assets, depending on the type of asset. Difference between the estimated fair value, and the carrying value, is disclosed in Note 2.2.

Impairment of property, plant and equipment

The Group and the Company makes an assessment, at least annually, whether there are any indicators that property, plant and equipment have suffered impairment. If that is the case, the Group and the Company makes an impairment test in accordance with the accounting policy set out in Note 2. Based on the assessment of the management, as of 31 December 2008 and 31 December 2007 there were no indications that property, plant and equipment are impaired, except for the property, plant and equipment of the subsidiary UAB Kauno Energetikos Remontas, which was valued by the valuators using depreciated replacement value method as of 31 December 2008 (see paragraph above). The recoverable value of such property, plant and equipment of this subsidiary was determined by the management by estimating the fair value less cost to sell as of 31 December 2008 and the respective impairment charge of LTL 9,320 thousand was recorded in the Group's income statement.

Impairment of investments to subsidiaries (in the Company) and associates (in the Group and the Company)

Since the shares of the subsidiaries and associated entities are not listed, the Group/Company estimated the recoverable value of these investments based on the carrying value of the Group's/Company's share of the subsidiary's/associate's net assets, which approximates its fair value as of 31 December 2008 based on the judgement of the management, except for the investment in subsidiary UAB Kauno Energetikos Remontas. The recoverable amount of this investment was estimated by the Company based on the estimated future cash flows as the carrying value of the net assets was not considered to approximate the fair value due to significant decline in the volume of operations of the subsidiary and the deterioration of its business prospects.

The underlying principles used for other material estimates are outlined in the respective notes to the financial statements.

At the date of preparing these financial statements, the underlying assumptions and estimates were not subject to a significant risk that from today's point of view it is likely that the carrying amounts of assets and liabilities will have to be adjusted significantly in the subsequent financial year, except for (a) the adjustments which might be needed if the estimates and judgments related to the uncertainty arising from commitment to transfer Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant to the government as stated in the agreement signed by LEO LT, AB shareholders, as described in Note 36 of the explanatory notes, are changed, and (b) the adjustments which might be needed if the estimates of the management of the fair value of the property, plant and equipment of UAB Kauno Energetikos Remontas, as described in paragraph "Impairment of property, plant and equipment" above, are changed.

4 Intangible assets

As of 31 December 2008 and 31 December 2007 intangible assets of the Group comprise:

Group	Patents and licences	Software	Other intangible assets	Total
As of 31 December 2006				
Acquisition cost	2,329	16,698	43	19,070
Accumulated amortisation	(1,051)	(11,183)	(14)	(12,248)
Net book value as of 31 December 2006	**1,278**	**5,515**	**29**	**6,822**
Year ended 31 December 2007				
Net book value at the beginning of the period	1,278	5,515	29	6,822
Additions	8	1,053	-	1,061
Amortisation	(663)	(2,107)	(8)	(2,778)
Net book value as of 31 December 2007	**623**	**4,461**	**21**	**5,105**
As of 31 December 2007				
Acquisition cost	2,337	17,634	36	20,007
Accumulated amortisation	(1,714)	(13,173)	(15)	(14,902)
Net book value as of 31 December 2007	**623**	**4,461**	**21**	**5,105**
Year ended 31 December 2008				

Net book value at the beginning of the period	623	4,461	21	5,105
Additions	21	496	-	517
Amortisation	(508)	(1,854)	(6)	(2,368)
Impairment	-	(105)	-	(105)
Net book value as of 31 December 2008	**136**	**2,998**	**15**	**3,149**
As of 31 December 2008				
Acquisition cost	2,358	18,100	36	20,494
Accumulated amortisation	(2,222)	(14,997)	(21)	(17,240)
Accumulated impairment	-	(105)	-	(105)
Net book value as of 31 December 2008	**136**	**2,998**	**15**	**3,149**

As of 31 December 2008 and 31 December 2007 intangible assets of the Company comprise:

Company	**Patents and licences**	**Software**	**Other intangible assets**	**Total**
As of 31 December 2006				
Acquisition cost	2,277	16,625	7	18,909
Accumulated amortisation	(1,019)	(11,132)	(7)	(12,158)
Net book value as of 31 December 2006	**1,258**	**5,493**	**-**	**6,751**
Year ended 31 December 2007				
Net book value at the beginning of the period	1,258	5,493	-	6,751
Additions	-	993	-	993
Amortisation	(648)	(2,093)	-	(2,741)
Net book value as of 31 December 2007	**610**	**4,393**	**-**	**5,003**
As of 31 December 2007				
Acquisition cost	2,277	17,501	-	19,778
Accumulated amortisation	(1,667)	(13,108)	-	(14,775)
Net book value as of 31 December 2007	**610**	**4,393**	**-**	**5,003**
Year ended 31 December 2008				
Net book value at the beginning of the period	610	4,393	-	5,003
Additions	-	470	-	470
Amortisation	(492)	(1,837)	-	(2,329)
Net book value as of 31 December 2008	**118**	**3,026**	**-**	**3,144**
As of 31 December 2008				
Acquisition cost	2,277	17,941	-	20,218
Accumulated amortisation	(2,159)	(14,915)	-	(17,074)
Net book value as of 31 December 2008	**118**	**3,026**	**-**	**3,144**

Acquisition cost of the Group's and the Company's intangible assets, which were fully amortised but still in use as of 31 December 2008 and 31 December 2007, are as follows:

Groups of intangible assets	**Group 2008**	**Company 2008**	**Group 2007**	**Company 2007**
Patents and licences	817	817	555	555
Software	12,628	12,583	9,521	9,478
Total	**13,445**	**13,400**	**10,076**	**10,033**

5 Property, plant and equipment

As of 31 December 2008 and 31 December 2007 property, plant and equipment of the Group comprise:

Group	Land	Buildings	Structures and machinery	Hydro Power Plant and Pumped Storage Power Plant assets	Vehicles	Other property, plant and equipment	Construction in progress	Total
As of 31 December 2006								
Cost	-	148,192	2,048,168	565,320	22,750	152,985	71,840	3,009,255
Accumulated depreciation	-	(16,252)	(323,387)	(54,374)	(12,162)	(53,524)	-	(459,699)
Accumulated impairment	-	-	(1,188)	(30)	-	-	-	(1,218)
Net book value	**-**	**131,940**	**1,723,593**	**510,916**	**10,588**	**99,461**	**71,840**	**2,548,338**
Year ended 31 December 2007								
Net book value at the beginning of the period	-	131,940	1,723,593	510,916	10,588	99,461	71,840	2,548,338
Additions	84	826	7,395	28,510	2,697	19,721	109,829	169,062
Disposals	-	(226)	(10)	-	(3)	-	-	(239)
Write-offs	-	(29)	(1,476)	(439)	(8)	(113)	(9)	(2,074)
Impairment	-	(145)	(47)	(369)	-	(728)	-	(1,289)
Reversal of impairment	-	-	-	30	-	-	-	30
Transfers between captions	-	5,279	59,277	-	-	(33,210)	(31,346)	-
Depreciation	-	(4,652)	(98,603)	(19,089)	(3,177)	(19,253)	-	(144,774)
Net book value	**84**	**132,993**	**1,690,129**	**519,559**	**10,097**	**65,878**	**150,314**	**2,569,054**
As of 31 December 2007								
Cost	84	153,967	2,110,616	592,794	24,893	138,693	150,314	3,171,361
Accumulated depreciation	-	(20,829)	(419,252)	(72,866)	(14,796)	(72,087)	-	(599,830)
Accumulated impairment	-	(145)	(1,235)	(369)	-	(728)	-	(2,477)
Net book value	**84**	**132,993**	**1,690,129**	**519,559**	**10,097**	**65,878**	**150,314**	**2,569,054**
Year ended 31 December 2008								
Net book value at the beginning of the period	84	132,993	1,690,129	519,559	10,097	65,878	150,314	2,569,054
Additions	35	602	5,095	56,321	2,919	5,591	85,935	156,498
Revaluation	167	60,924	533,453	-	19	6,863	342	601,768
Disposals	-	(7)	(21)	-	(31)	(3)	-	(62)
Write-offs		-	(1,248)	(13)	(273)	(2,958)	-	(4,492)
Impairment	-	(6,541)	(2,778)	(769)	-	-	-	(10,088)
Transfers between captions	-	8,275	52,550	-	-	4,401	(69,145)	(3,919)
Depreciation	-	(3,325)	(94,646)	(19,473)	(3,135)	(17,265)	-	(137,844)
Net book value	**286**	**192,921**	**2,182,534**	**555,625**	**9,596**	**62,507**	**167,446**	**3,170,915**
As of 31 December 2008								
Cost or revaluated amount	286	199,607	2,186,547	648,893	9,596	63,235	167,446	3,273,836
Accumulated depreciation	-	-	-	(92,130)	-	-	-	(92,130)
Accumulated impairment	-	(6,686)	(4,013)	(1,138)	-	(728)	-	(12,565)
Net book value	**286**	**192,921**	**2,182,534**	**555,625**	**9,596**	**62,507**	**167,446**	**3,170,915**

As discussed in Note 2.2, the property, plant and equipment of the Group, except Hydro Power Plant and Pumped Storage Power Plant assets, has been revalued as of 31 December 2008. The total effect of revaluation amounting to LTL 601,768 thousand was accounted as follows: LTL 615,891 thousand increase in value was accounted in revaluation reserve net of LTL 123,168 thousand deferred tax, and LTL 14,123 thousand decrease in value was accounted as impairment charge in the consolidated income statement.

5 Property, plant and equipment (cont'd)

As of 31 December 2008 and 31 December 2007 property, plant and equipment of the Company comprise:

Company	**Land**	**Buildings**	**Structures and machinery**	**Hydro Power Plant and Pumped Storage Power Plant assets**	**Vehicles**	**Other property, plant and**	**Construction in progress**	**Total**
As of 31 December 2006								
Cost	-	122,102	2,039,599	565,320	20,482	152,245	72,390	2,972,138
Accumulated depreciation	-	(14,765)	(320,902)	(54,374)	(11,479)	(53,214)	-	(454,734)
Accumulated impairment	-	-	(1,177)	(30)	-	-	-	(1,207)
Net book value	**-**	**107,337**	**1,717,520**	**510,916**	**9,003**	**99,031**	**72,390**	**2,516,197**
Year ended 31 December 2007								
Net book value at the beginning of the period	-	107,337	1,717,520	510,916	9,003	99,031	72,390	2,516,197
Additions	84	39	6,500	28,510	2,469	19,680	110,946	168,228
Write-offs	-	(29)	(1,478)	(439)	(8)	(113)	(9)	(2,076)
Impairment	-	(145)	(47)	(369)	-	(728)	-	(1,289)
Reversal of impairment	-	-	-	30	-	-	-	30
Transfers between captions	-	5,279	59,349	-	-	(33,210)	(31,418)	-
Depreciation	-	(4,139)	(97,560)	(19,089)	(2,873)	(19,150)	-	(142,811)
Net book value	**84**	**108,342**	**1,684,284**	**519,559**	**8,591**	**65,510**	**151,909**	**2,538,279**
As of 31 December 2007								
Cost	84	127,324	2,101,368	592,794	22,508	137,912	151,909	3,133,899
Accumulated depreciation	-	(18,837)	(415,860)	(72,866)	(13,917)	(71,674)	-	(593,154)
Accumulated impairment	-	(145)	(1,224)	(369)	-	(728)	-	(2,466)
Net book value	**84**	**108,342**	**1,684,284**	**519,559**	**8,591**	**65,510**	**151,909**	**2,538,279**
Year ended 31 December 2008								
Net book value at the beginning of the period	84	108,342	1,684,284	519,559	8,591	65,510	151,909	2,538,279
Additions	35	-	1,823	56,321	2,852	5,539	74,015	140,585
Revaluation	167	54,956	531,646	-	-	6,269	(217)	592,821
Write-offs		-	(938)	(13)	(273)	(2,958)	-	(4,182)
Impairment	-	-	-	(769)	-	-	-	(769)
Transfers between captions		(4,269)	52,643	-	-	4,733	(58,124)	(5,017)
Depreciation	-	(2,770)	(93,538)	(19,473)	(2,827)	(17,175)	-	(135,783)
Net book value	**286**	**156,259**	**2,175,920**	**555,625**	**8,343**	**61,918**	**167,583**	**3,125,934**
As of 31 December 2008								
Cost or revaluated amount	286	156,404	2,177,144	648,893	8,343	62,646	167,583	3,221,299
Accumulated depreciation	-	-	-	(92,130)	-	-	-	(92,130)
Accumulated impairment	-	(145)	(1,224)	(1,138)	-	(728)	-	(3,235)
Net book value	**286**	**156,259**	**2,175,920**	**555,625**	**8,343**	**61,918**	**167,583**	**3,125,934**

As discussed in Note 2.2, the property, plant and equipment of the Company, except Hydro Power Plant and Pumped Storage Power Plant assets, has been revalued as of 31 December 2008. The total effect of revaluation amounting to LTL 592,821 thousand was accounted as follows: LTL 604,038 thousand increase in value was accounted in revaluation reserve net of LTL 120,808 thousand deferred tax, and LTL 11,217 thousand decrease in value was accounted as impairment charge in the Company's income statement.

The property, plant and equipment depreciation charge of the Company and the Group recorded in 2008 income statement was decreased by the amortisation of grants in the amounts of LTL 1,808 thousand and LTL 1,830 thousand, respectively (LTL 1,504 thousand and LTL 1,527 thousand respectively in 2007). In addition, the depreciation charge of the Group amounting to LTL 475 thousand (LTL 165 thousand in 2007) was capitalised as cost of construction of property, plant and equipment.

5 Property, plant and equipment (cont'd)

In 2008 the Company finished the following investment projects:

Project	Value, LTL thousand
Construction of 110/10 kV Nemunas transformer substation	17,908
Reconstruction of VŠĮ Respublikinio Energetikų Mokymo Centras buildings and area management	12,965
Replacing part of 110kV double-chain OL KHE-Aleksotas TP and Petrašiūnai Power Plant-Aleksotas TP with cable-line	6,241
Reconstruction of 110/35/10 kV Ukmergė transformer substation	8,012
National DC and backup DC database's conversion to ORACLE	8,011
Removing part of 110kV OL Kaunas-Jonava from Lapės and installation of cable line	3,861
Reconstruction of 110/10 kV Gedminai transformer substation	3,916
Reconstruction of 110 kV overhead line Vidiškiai-Skiemonys	1,471
Installation of video monitoring and security alarm at 110 kV switchgears	1,308
Construction of 2nd level 110kV switchgear in 110/10 kV Ąžuolynė transformer substation	930
Installation of commercial metering at 110/35/10 kV Kėdainiai substation	895
Construction of warehouse at Jonava transformer substation	539
Installation of commercial metering at 110/10 kV Marvelė substation	478

Net book values of the Group's property, plant and equipment, acquired under financial lease agreements as of 31 December 2008 and 31 December 2007 were as follows:

Group of property, plant and equipment	As of 31 December 2008	As of 31 December 2007
Machinery and equipment	4,301	1,196
Vehicles	100	102
Total	**4,401**	**1,298**

Acquisition cost of the Group's and the Company's property, plant and equipment, which was fully depreciated but still in use as of 31 December 2008 and 31 December 2007, were as follows:

Group of property, plant and equipment	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Buildings	6,182	6,181	4,361	4,344
Structures, machinery and equipment	49,483	49,475	57,679	57,514
Hydro Power Plant and Pumped Storage Power Plant assets	2,174	2,174	1,786	1,786
Vehicles	7,102	7,091	8,246	8,137
Other equipment, tools and devices	20,358	20,255	18,706	18,628
Total	**85,299**	**85,176**	**90,778**	**90,409**

The Group/Company has significant contractual obligations for property, plant and equipment acquisition, which have to be fulfilled in later periods. The Company performs the modernisation investment project of Kaunas Hydro Power Plant amounting to LTL 48,504 thousand and EUR 23,703 thousand (LTL 130,346 thousand in total). LTL 30 million from this amount will be financed by the Europe Regional Development Fund and from other general financing funds. The main contractor of the project is Alstom Power Sweden AB. Related purchase commitment as of 31 December 2008 amounts to LTL 51 million (LTL 81.8 million as of 31 December 2007). The project is expected to be finished in December 2009. The purchase commitments related to other Company's investment projects amounted to LTL 9 million as of 31 December 2008 (LTL 63.8 million as of 31 December 2007). The Group has no other material purchase commitments related to the property, plant and equipment as of 31 December 2008 and 2007.

As described in Note 36, according to the agreement, signed by the shareholders of parent company LEO LT, AB, Kruonis Pumped Storage Power Plant and Kaunas Hydro Power Plant have to be transferred to the State by 27 May 2010. Net book value of the assets, which have to be transferred under this agreement, amounted to LTL 569 million as of 31 December 2008 (major part of these assets is accounted for under Hydro Power Plant and Pumped Storage Power Plant assets caption).

6 Investment property

		Group	Company
As of 31 December 2006			
Cost		-	6,054
Accumulated depreciation		-	(218)
Net book value		**-**	**5,836**
Year ended 31 December 2007			
Net book value at the beginning of the period		-	5,836
Depreciation		-	(73)
Net book value		**-**	**5,763**
As of 31 December 2007			
Cost		-	6,054
Accumulated depreciation		-	(291)
Net book value		**-**	**5,763**
Year ended 31 December 2008			
Net book value at the beginning of the period		-	5,763
Additions		-	11,095
Transferrs from property, plant and equipment		3,919	5,017
Depreciation		-	(96)
Net book value		**3,919**	**21,779**
As of 31 December 2008			
Cost		4,377	22,699
Accumulated depreciation		(458)	(920)
Net book value		**3,919**	**21,779**

The fair value of the investment property of the Group and the Company as of 31 December 2008 as determined by the independent valuators amounted to LTL 9,508 thousand and LTL 28,299 thousand, respectively.

Revenue from lease of investment property of the Group and the Company as of 31 December 2008 amounted to LTL 487 thousand and LTL 1,005 thousand, respectively (revenue of the Company as of 31 December 2007 amounted to LTL 342 thousand, the Group did not have revenue from lease of investment propery in 2007).

7 Investments

As of 31 December 2008 and 2007, the Company had direct control over these subsidiaries:

Subsidiary	Acquisition cost as of 31 December 2008	Impairment as of 31 December 2008	Carrying value as of 31 December 2008	Carrying value as of 31 December 2007
UAB Kauno Energetikos Remontas	31,341	(15,441)	15,900	31,341
UAB Energetikos Pajėgos	414	-	414	414
UAB Kruonio Investicijos	2,361	(607)	1,754	2,361
Total	**34,116**	**(16,048)**	**18,068**	**34,116**

The Company owns 100 % of shares of these companies. The Company owns UAB Gotlitas ir OOO Kaliningradskij Energoremont (Note 1) indirectly, i.e. through UAB Kauno Energetikos Remontas.

As of 31 December 2008 and 31 December 2007 the Company's investments to associates and a joint venture comprise:

Company as of 31 December 2008	Acquisition cost	Ownership (% of shares)	Impairment	Carrying value
UAB Geoterma	7,396	23.44	(4,104)	3,292
AS Nordic Energy Link	21,175	25.00	-	21,175
LitPol Link Sp.z.o.o	1,020	50.00	(727)	293
Total	**29,591**		**(4,831)**	**24,760**

Company as of 31 December 2007	Acquisition cost	Ownership (% of shares)	Impairment	Carrying value
UAB Geoterma	4,373	23.44	(2,726)	1,647
AS Nordic Energy Link	21,175	25.00	-	21,175
Total	**25,548**		**(2,726)**	**22,822**

As of 31 December 2008 and 31 December 2007 the Group's investments to associates and a joint venture comprise:

Group as of 31 December 2008	Acquisition cost	Ownership (% of shares)	Impairment and equity method	Carrying value
UAB Geoterma	7,396	23.44	(4,104)	3,292
AS Nordic Energy Link	21,175	25.00	848	22,023
UAB Enmašas	20	33.33	71	91
LitPol Link Sp.z.o.o	1,020	50.00	(727)	293
Total	**29,611**		**(3,912)**	**25,699**

Group as of 31 December 2007	Acquisition cost	Ownership (% of shares)	Impairment and equity method	Carrying value
UAB Geoterma	4,373	23.44	(2,726)	1,647
AS Nordic Energy Link	21,175	25.00	415	21,590
Total	**25,548**		**(2,311)**	**23,237**

On 20 December 2007 the extraordinary general shareholders' meeting of UAB Geoterma was convened where it was decided to reduce the share capital of UAB Geoterma from LTL 18,652,350 to LTL 8,405,910 by withdrawing 1,024,644 ordinary registered shares of LTL 10 nominal value each in order to cover accumulated losses. At the same time, it was decided to increase the share capital of this company from LTL 8,405,910 to LTL 21,305,910 by additional contributions, i.e. by issuing 1,290,000 ordinary shares of LTL 10 nominal value each. The Company has acquired 302,423 shares for LTL 3,024,230. On 7 January 2008 the amount payable for shares was offset according the Payment Claims Settlement Agreement as contribution made by the Company for the acquired shares, and for UAB Geoterma as repayment of the loan, which had been granted by the Company. On 24 January 2008 amendments in the Articles of Association of UAB Geoterma related to the mentioned changes in the share capital were registered in the Register of Legal Persons.

On 19 May 2008 the Chief Executive Officers of electricity transmission system operators AB Lietuvos Energija and PSE Operator (Poland) signed the Articles of a joint venture LitPol Link, which will implement the interconnection project of Lithuanian and Polish power systems. AB Lietuvos Energija and PSE Operator each owns 50 % of the joint venture shares. The joint venture was registered on 8 August 2008.

Financial position as of 31 December 2008 and 31 December 2007 and operating results for the years 2008 and 2007 of the associates and a joint venture are as follows (unaudited):

As of 31 December 2008	Assets	Liabilities	Sales	Net profit (loss)
UAB Geoterma	55,460	41,413	1,475	(5,887)
AS Nordic Energy Link	332,499	253,195	77,260	1,732
LitPol Link Sp.z.o.o	885	299	-	(1,082)
UAB Enmašas	285	11	61	(45)

As of 31 December 2007	Assets	Liabilities	Sales	Net profit (loss)
UAB Geoterma	55,472	48,445	2,202	(3,503)
AS Nordic Energy Link	339,678	262,105	60,599	2,756

Movement of investments in associates and a joint venture for the periods ended 31 December 2008 and 31 December 2007 were as follows:

	Group 2008	Company 2008	Group 2007	Company 2007
Carrying amount as of 1 January	**23,237**	**22,822**	**23,938**	**23,938**
Increase in investments	4,063	4,043	**-**	**-**
Impairment of investments	-	(2,105)	(59)	(606)
Share of financial result (loss) of associates and joint ventures	(1,601)	-	(132)	-
Liquidation of Baltijas Energosistemu Dispečeru Centrs BO SIA (DC Baltija)	-	-	(510)	(510)
Carrying amount at the end of the period	**25,699**	**24,760**	**23,237**	**22,822**

Impairment charge was recorded in the expenses from financing activities caption in the income statement.

8 Non-current accounts receivable

The Group's and the Company's non-current accounts receivable comprise:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Accounts receivable from AB VST	-	-	1,500	1,500
Other receivables	651	651	777	777
Total	**651**	**651**	**2,277**	**2,277**
Less: current portion (Note 11)	(27)	(27)	(299)	(299)
Carrying amount	**624**	**624**	**1,978**	**1,978**

The fair value of other non-current accounts receivable approximates their carrying values.

9 Inventories

Inventories of the Group and the Company comprise:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Materials and spare parts, production in progress and finished goods at acquisition (production) cost	9,923	5,065	12,760	6,053
Goods for resale at acquisition cost	535	319	560	487
Less: write-down to net realisable value	(4,448)	(858)	(482)	(396)
Carrying amount	**6,010**	**4,526**	**12,838**	**6,144**

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 December 2008 amounted to LTL 6,329 thousand and LTL 1,255 thousand, respectively (LTL 629 thousand and LTL 494 thousand as of 31 December 2007, respectively).

Amount of inventory recognised as expense in the Group and the Company during the year ended 31 December 2008 amounted to LTL 14,863 thousand and LTL 7,322 thousand, respectively (LTL 17,524 thousand and LTL 9,684 thousand in 2007).

The movement of impairment of inventories in 2008 and 2007 were as follows:

	Group 2008	Company 2008	Group 2007	Company 2007
Carrying amount as of 1 January	482	396	378	351
Increase in allowance during the year	4,358	838	264	205
Reversal of allowance for inventory	(392)	(376)	(160)	(160)
Carrying amount at the end of the period	**4,448**	**858**	**482**	**396**

Impairment charge was recorded in other expenses caption in the income statement.

10 Trade receivables

Trade receivables of the Group and the Company comprise:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Receivables for electricity sold in Lithuania	55,007	55,007	53,902	53,902
Receivables for repair and projecting works	10,353	-	16,638	-
Receivables for exported electricity	19,614	19,614	11,866	11,866
Receivables for electricity transit	574	574	157	157
Unbilled revenue for electricity related sales	51,308	51,308	41,317	41,317
VAT on unbilled revenue	9,749	9,749	7,437	7,437
Total	**146,605**	**136,252**	**131,317**	**114,679**
Less: allowance for doubtful receivables	(10,313)	(9,612)	(9,947)	(9,612)
Carrying amount	**136,292**	**126,640**	**121,370**	**105,067**

The fair value of trade receivables approximates their carrying values.

The movement of allowances for doubtful receivables for the years ended 31 December 2008 and 31 December 2007 was as follows:

	Group 2008	Company 2008	Group 2007	Company 2007
Carrying amount as of 1 January	**9,947**	**9,612**	**9,954**	**9,612**
Recognised as doubtful receivables per reporting period	375	-	-	-
Reversal of allowance for doubtful receivables	(9)	-	(7)	-
Carrying amount at the end of the period	**10,313**	**9,612**	**9,947**	**9,612**

Impairment charge was recorded in other expenses caption in the income statement.

As of 31 December 2008 and 31 December 2007 the majority of impaired trade receivables of the Group and the Company consisted of trade receivables from AB Ekranas (LTL 9,612 thousand), that was bankrupt at the date of the financial statements.

The ageing analysis of the Group's and the Company's trade receivables that were not recognised as doubtful are as follows:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Not overdue	133,584	126,257	109,360	94,078
Overdue up to 30 days	2,465	383	11,464	10,883
Overdue from 30 to 60 days	243	-	427	106
Overdue from 60 to 90 days	-	-	22	-
Overdue more 90 days	-	-	97	-
Carrying amount	**136,292**	**126,640**	**121,370**	**105,067**

11 Other accounts receivable

Current other accounts receivable of the Group and the Company comprise:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Deferred VAT receivable	5,344	5,344	2,961	2,961
Receivables for IT and telecommunication services	2,805	2,830	3,283	3,287
Loan to UAB Geoterma	-	-	3,222	3,222
VAT receivable from the budget	332	-	1,774	1,513
Current portion of non-current receivables (Note 8)	27	27	299	299
Receivable from UAB Visagino Atominė Elektrinė and UAB InterLinks	7,413	7,413	-	-
Other receivables	6,067	6,029	5,126	5,063
Total	**21,988**	**21,643**	**16,665**	**16,345**
Less: allowance for doubtful receivables	(4,870)	(4,870)	(4,860)	(4,860)
Carrying amount at the end of the period	**17,118**	**16,773**	**11,805**	**11,485**

The movement of allowance for doubtful other receivables for the periods ended 31 December 2008 and 31 December 2007 was as follows:

	Group 2008	Company 2008	Group 2007	Company 2007
Carrying amount as of 1 January	**4,860**	**4,860**	**4,860**	**4,860**
Recognised as doubtful receivables per reporting period	10	10	-	-
Carrying amount at the end of the period	**4,870**	**4,870**	**4,860**	**4,860**

Impairment charge was recorded in other expenses caption in the income statement.

The ageing analysis of the Group's and the Company's current other accounts receivable that were not recognised as doubtful, is as follows:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Not overdue	16,989	16,644	10,944	10,624
Overdue up to 30 days	54	54	609	609
Overdue from 30 to 60 days	8	8	252	252
Overdue from 60 to 90 days	48	48	-	-
Overdue from 90 days	19	19	-	-
Carrying amount	**17,118**	**16,773**	**11,805**	**11,485**

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

12 Other financial assets

Other financial assets of the Group and the Company as of 31 December 2008 represent the carrying value of bonds issued by the Lithuanian and Finnish governments with the maturity in March and April of 2009 (no such assets held as of 31 December 2007).

The carrying amount of other financial assets approximates their fair value.

13 Term deposits

Term deposits of the Group and the Company comprise:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Term deposit at AB Bankas Snoras (contract currency litas), maturity – July 2008	-	-	150	-
Term deposit at AB Bankas Snoras (contract currency litas), maturity – June 2009	200	-	-	-
Carrying amount	**200**	**-**	**150**	**-**

The carrying amount of term deposit approximates its fair value.

14 Cash and cash equivalents

The Group's and the Company's cash and cash equivalents comprise:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Cash at bank and on hand	23,972	23,481	12,307	9,915
Term deposit at Nordea Bank Finland Plc Lithuania Branch (contract currency litas), maturity – January 2008	-	-	1,000	-
Term deposit at Nordea Bank Finland Plc Lithuania Branch (contract currency litas), maturity – January 2009	360	-	360	-
Term deposit at UniCredit Bank (contract currency litas), maturity – January 2009	15,000	15,000	-	-
Term deposit at AB SEB Bank (contract currency litas), maturity – January 2009	29,000	29,000		
One-night deposit at AB Bankas Hansabankas (conracts currency litas)	1,701	1,701	3,739	3,739
One-night deposit at AB Bankas Hansabankas (contract currency euros)	424	424	912	912
Carrying amount	**70,457**	**69,606**	**18,318**	**14,566**

Original maturity of all deposits is up to three months; the weighted average of interest rate of the Group and the Company was 4.30 % and 4.31 %, respectively, as of 31 December 2008.

The fair value of the Group's and the Company's cash and term deposits approximates their carrying amount.

As of 31 December 2008 the Company had unusued overdraft and credit line facility available amounting to EUR 20,081 thousand and LTL 19,358 thousand (EUR 25,977 thousand and LTL 19,358 thousand – as of 31 December 2007) part of which amounting to LTL 10,358 thousand and EUR 3,000 thousand is available till 1 July 2009 and another part amounting to EUR 6,081 thousand and LTL 9,000 thousand is available till 17 May 2009. However, as of 31 December 2008 the Company did not comply with all the terms of the agreement, according to which the unused overdraft facility ampounted to LTL 10,358 thousand and credit limit amounted to EUR 3,000 thousand, and the Bank has a right to terminate the credit agreement before the maturity term.

15 Share capital

As of 31 December 2008, the share capital of the Company was LTL 689,515,435 and it was divided into 689,515,435 ordinary registered shares with the par value of one Litas each. All the shares were fully paid. The highest share price at the Stock Exchange session in 2008 was LTL 4.83 per share, the lowest – LTL 2.04 per share. The number of shareholders as of 31 December 2008 was 5,804.

Shareholders of the Company were:

	Share capital as of 31 December 2008		Share capital as of 31 December 2007	
Shareholders	**LTL**	**%**	**LTL**	**%**
LEO LT, AB	664,700,833	96.40	-	-
State of Lithuania represented by the Ministry of Economy	303,442	0.04	665,400,833	96.50
Other	24,511,160	3.56	24,114,602	3.50
Total:	**689,515,435**	**100.00**	**689,515,435**	**100.00**

LEO LT, AB is owned by the State of Lithunania represented by the Ministry of Economy (61.7 %) and UAB NDX Energija (38.3 %).

16 Legal reserve

Legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 % of net profit are compulsory until the reserve reaches 10 % of the share capital.

As of 31 December 2008 the Company had fully formed legal reserve, which accounted for 10 % of the share capital and amounted to LTL 68,952 thousand.

17 Other reserves

Other reserves of the Group and the Company comprise:

Group	Reserve for reducing the share capital due to the transfer of heavy fuel storage reservoirs	Reserve for investments	Revaluation reserve	Reserve for management and employee bonuses and sponsorship	Reserves related to non-current assets	Other reserves	Total
Balance as of 31 December 2006	**(63,777)**	**162,744**	**-**	**2,024**	**1,293,569**	**-**	**1,394,560**
Transfers to reserves	-	-	-	1,855	-	10,531	12,386
Utilised reserves	-	-	-	(2,160)	-	-	(2,160)
Balance as of 31 December 2007	**(63,777)**	**162,744**	**-**	**1,719**	**1,293,569**	**10,531**	**1,404,786**
Transfers to reserves	-	-	492,723	3,053	-	48,443	544,219
Utilised reserves	-	-	-	(1,752)	-	-	(1,752)
Balance as of 31 December 2008	**(63,777)**	**162,744**	**492,723**	**3,020**	**1,293,569**	**58,974**	**1,947,253**

Company	Reserve for reducing the share capital due to the transfer of heavy fuel storage reservoirs	Reserve for investments	Revaluation reserve	Reserve for management and employee bonuses and sponsorship	Reserves related to non-current assets	Other reserves	Total
Balance as of 31 December 2006	**(63,777)**	**160,637**	**-**	**2,000**	**1,293,569**	**-**	**1,392,429**
Transfers to reserves	-	-	-	1,700	-	10,531	12,231
Utilised reserves	-	-	-	(2,000)	-	-	(2,000)
Balance as of 31 December 2007	**(63,777)**	**160,637**	**-**	**1,700**	**1,293,569**	**10,531**	**1,402,660**
Transfers to reserves	-	-	483,230	2,780	-	47,831	533,841
Utilised reserves	-	-	-	(1,700)	-	-	(1,700)
Balance as of 31 December 2008	**(63,777)**	**160,637**	**483,230**	**2,780**	**1,293,569**	**58,362**	**1,934,801**

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

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

18 Borrowings

The Group's and the Company's borrowings according to repayment schedules:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Within the first year	271	-	2,022	2,022
Within the second year	13,811	13,811	19,286	19,286
Within the third year	-	-	19,286	19,286
Within the fourth year	-	-	2,022	2,022
Within the fifth year	-	-	19,287	19,287
After five years	-	-	2,022	2,022
Total	**14,082**	**13,811**	**63,925**	**63,925**

The Group's and the Company's non-current borrowings comprise:

Credit institution	Contractual amount of loan (in EUR thousand)	Amount of used but not repaid loan as of 31 December 2008 (in EUR thousand)	Maturity of the loan	Amount of used but not repaid loan as of 31 December 2008	Current portion as of 31 December 2007	Amount of used but not repaid loan as of 31 December 2007
Zurcher Kantonal Bank	8,013	-	-	-	2,022	12,133
AB SEB Bankas	15,000	-	2009	-	-	-
AS UniCredit Bank Lithuania Branch	15,000	4,000	2010	13,811	-	51,792
AB Bankas Hansabankas	11,585	-	2009	-	-	-
Total non-current borrowings	**49,598**	**4,000**		**13,811**	**2,022**	**63,925**

The current borrowings of the Group as of 31 December 2008 comprise LTL 271 thousand overdarft obtained by UAB Kauno energetikos remontas (the Company had no current borrowings as of 31 December 2008).

The estimated fair value of the borrowings amounted to LTL 12,150 thousand as of 31 December 2008 (LTL 63,286 thousand as of 31 December 2007).

As of 31 December 2008, the Company had borrowings amounting to LTL 13,811 thousand with a fixed interest rate (weighted average – 4.77 %). As of 31 December 2007 the Company had borrowings amounting to LTL 50,114 thousand with a variable interest rate (weighted average – 5.3 %) and borrowings amounting to LTL 13,811 thousand with a fixed interest rate (weighted average – 4.77 %).

The Group companies do not have any borrowings secured by the State guarantee or their own assets.

The Group and the Company are subject to meeting certain covenants under loan agreements:

- Under 24 January 2003 agreement with Zurcher Kantonal Bank (contractual loan amount – EUR 8,013 thousand) the Company was prohibited to pledge any assets or revenues to any third parties. The loan was repaid on 18 August 2008.

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

- Under 28 August 2002 agreement with AB SEB Bankas (contractual loan amounts – EUR 15,000 thousand and LTL 10,358 thousand) the Company is obliged to carry monthly turnover of over LTL 15 million 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 reorganisation 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 LTL 1 million), secure present and future liabilities under credit agreements by pledging assets or guarantees of third parties.

- Under 22 May 2002 agreement with Bayerishe Hypo-und Wereinsbank AG (HVB-Bank) Vilnius Branch (contractual loan amount – EUR 15,000 thousand) the Company is obliged to carry monthly turnover of over LTL 10 million 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 not to declare and pay dividends, perform the distribution of share capital, and purchase shares. On 1 September 2007 under a contract AS UniCredit Bank Lithuania Branch from HVB-Bank overtook all rights and obligations acquired through HVB-Bank Vilnius Branch.

In 2008 and 2007 the Group and the Company was in compliance with all covenants under the loan agreements.

As of 31 December 2008 the Company had unusued overdraft and credit line facility available amounting to EUR 20,081 thousand and LTL 19,358 thousand (EUR 25,977 thousand and LTL 19,358 thousand – as of 31 December 2007) part of which amounting to LTL 10,358 thousand and EUR 3,000 thousand is available till 1 July 2009 and another part amounting to EUR 6,081 thousand LTL 9,000 thousand is available till 17 May 2009. However, as of 31 December 2008 the Company did not comply with all the terms of the agreement, according to which the unused overdraft facility ampounted to LTL 10,358 thousand and credit limit amounted to EUR 3,000 thousand, and the Bank has a right to terminate the credit agreement before the maturity term.

19 Issued bonds

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

The fair value of the issued bonds as of 31 December 2008 was EUR 7,485 thousand (LTL 25,845 thousand) (as of 31 December 2007 – EUR 7,409 thousand (LTL 25,582 thousand)).

20 Financial lease liabilities

The Group's future minimum lease payments for equipment and other assets comprise:

Group	As of 31 December 2008		As of 31 December 2007	
	Minimum finance lease payments	**Present value of minimum finance lease payments**	**Minimum finance lease payments**	**Present value of minimum finance lease payments**
Financial lease payments:				
Within the first year	728	595	120	118
From two to five years	2,115	1,894	-	-
Minimal financial lease payments	**2,843**	**2,489**	**120**	**118**
Less: deferred interest	(354)	-	(2)	-
Present value of minimal financial lease payments	**2,489**	**2,489**	**118**	**118**

The Group's financial lease liabilities are secured by the lessor's right to the leased assets (Note 5).

The Company did not have any financial lease obligations outstanding as of 31 December 2008 and 2007.

The fair value of the finance lease liabilities approximates their carrying amount.

21 Grants

Balance of grants comprises grants related to financing acquisition of assets. The movement of grants in 2008 and 2007 is as follows:

Group	Group	Company
Balance as of 31 December 2006	**24,340**	**24,265**
Received during the period	28,058	28,058
Used during the period	(1,527)	(1,504)
Transferred to deferred revenue (Note 2.28)	(13,620)	(13,620)
Transferred to current portion of deferred revenue (Note 2.28)	(582)	(582)
Balance as of 31 December 2007	**36,669**	**36,617**
Received during the period	31,500	31,500
Used during the period	(1,830)	(1,808)
Balance as of 31 December 2008	**66,339**	**66,309**

22 Other non-current payables and liabilities

	Group as of 31 December 2008	**Company as of 31 December 2008**	**Group as of 31 December 2007**	**Company as of 31 December 2007**
Advances received from new customers*	22,673	22,673	19,283	19,283
Provisions for pension payments and injury compensations	1,620	1,620	-	-
Liability, related to guarantees for Nordic Energy Link (Note 36)	1,304	1,304	2,197	2,197
Total	**25,597**	**25,597**	**21,480**	**21,480**

* The caption represents the advances received for connecting new users to the electricity network. These advances received upon provided connection services will be transferred to deferred revenue caption and will be recognised as revenue per usefull life of created property, plant and equipment.

Provision for pension payments represents calculated amounts to be paid according to Lithuanian legislation. Each employee is entitled to 2 months salary payment when leaves the job at or after the start of pension period.

23 Trade payables

Trade payables of the Group and the Company comprise:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Debts for contract works and services	66,249	62,658	57,122	49,647
Debts for electricity and related services	56,271	56,271	64,170	64,170
Accrued liability for electricity	28,104	28,104	16,304	16,304
VAT related to accrued liability for electricity	5,089	5,089	2,935	2,935
Debts for inventory	2,383	1,467	15,647	12,248
Total	**158,096**	**153,589**	**156,178**	**145,304**

Fair value of trade payables approximates their carrying amount.

24 Other payables and liabilities

Other payables of the Group and the Company comprise:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Deferred VAT payable	9,999	9,999	7,658	7,658
Accrued expenses	8,693	8,693	492	492
Vacation reserve	3,609	2,512	3,355	3,025
Payroll-related liabilities	3,559	1,647	2,872	1,222
VAT payable to budget	3,041	3,039	11	-
Real estate tax payable	2,440	2,440	2,145	2,145
Current portion of deferred income from new customers	598	598	582	582
Dividends payable	520	520	633	633
Natural resource tax	345	345	310	310
Other taxes payable	20	14	16	11
Other payables and current liabilities	231	175	195	1
Carrying amount	**33,055**	**29,982**	**18,269**	**16,079**

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

25 Income tax

In 2008 and 2007 the income tax expenses comprise:

	Group 2008	Company 2008	Group 2007	Company 2007
Components of the income tax expense				
Current income tax for the reporting year (including social tax for the year 2007)	27,324	27,295	23,366	22,947
Deferred income tax (benefit)	(6,387)	(6,143)	(11,548)	(11,493)
Income tax expenses recorded in income statement	**20,937**	**21,152**	**11,818**	**11,454**

Deferred income tax of the Group and the Company comprises:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Deferred income tax asset				
Effect of carrying non-current assets at revalued amounts and deemed cost (impairment)	245,363	244,780	189,442	189,442
Bad debts	3,037	2,896	6,066	6,065
Vacation pay reserve	722	503	503	454
Accruals	399	399	-	-
Impairment of intangible assets	21	-	-	-

Impairment of property, plant and equipment	2,513	631	371	370
Impairment of financial assets	966	4,081	409	409
Write down of inventories to net realisable value	890	172	59	59
Written-off capitalized interest	-	-	68	68
Total deferred income tax asset before valuation allowance	**253,911**	**253,462**	**196,918**	**196,867**
Less: valuation allowance	(2,246)	(2,206)	(1,510)	(1,508)
Total deferred income tax asset, net of valuation allowance	**251,665**	**251,256**	**195,408**	**195,359**
Deferred income tax liability				
Effect of carrying non-current assets at revalued amounts and deemed cost (increase in value)	(602,201)	(599,449)	(376,861)	(376,696)
Carrying amount of non-current assets acquired under IInd investment exemption for tax purpose (excluding construction in progress)	(31,911)	(31,638)	(25,705)	(25,464)
Impact of application of different depreciation rates for property, plant and equipment in financial and tax accounting	(1,730)	(1,730)	(1,326)	(1,326)
Construction in progress acquired under IInd investment exemption in 1998–2001 and not commissioned into operation until 31 December 2008	(3)	(3)	(2)	(2)
Guarantee liability effect	(179)	(179)	-	-
Total deferred income tax liability	**(636,024)**	**(632,999)**	**(403,894)**	**(403,488)**
Deferred income tax liability, net	**(384,359)**	**(381,743)**	**(208,486)**	**(208,129)**

Deferred tax asset and liability was accounted using 20 % rate as of 31 December 2008 (15 % as of 31 December 2007).

The changes of temporary differences in the Group were as follows:

	As of 31 December 2007	**Recognised directly in equity**	**Recognised in the income statement**	**As of 31 December 2008**
Effect of carrying non-current assets at revalued amounts and deemed cost (impairment)	1,262,949	-	(36,129)	1,226,820
Bad debts	40,433	-	(25,250)	15,183
Vacation pay reserve	3,357	-	252	3,609
Accruals	-	-	1,993	1,993
Impairment of intangible assets	-	-	105	105
Impairment of property, plant and equipment	2,475	-	10,090	12,565
Impairment of financial assets	2,726	-	2,105	4,831
Write down of inventories to net realisable value	396	-	4,052	4,448
Written-off capitalized interest	450	-	(450)	-
Effect of carrying non-current assets at revalued amounts and deemed cost (increase in value)	(2,512,410)	(615,897)	117,304	(3,011,003)
Carrying amount of non-current assets acquired under IInd investment exemption for tax purpose (excluding construction in progress)	(171,371)	-	11,814	(159,557)
Impact of application of different depreciation rates for property, plant and equipment in financial and tax accounting	(8,837)	-	188	(8,649)
Construction in progress acquired under IInd investment exemption in 1998–2001 and not commissioned into operation until 31 December 2008	(16)	-	-	(16)
Guarantee liability effect	-	-	(893)	(893)
Total temporary differences	**(1,379,848)**	**(615,897)**	**85,181**	**(1,910,564)**
Deferred income tax at 15 % rate	**(206,976)**	**(92,382)**	**12,777**	**(286,581)**
Effect of increase in tax rate up to 20 %	**-**	**(30,787)**	**(64,746)**	**(95,533)**
Impact of income tax rate change on deemed cost accounted for directly in equity	**-**	**(59,092)**	**59,092**	**-**
Deferred tax asset valuation allowance	**(1,510)**	**-**	**(736)**	**(2,246)**
Deferred income tax liability, net	**(208,486)**	**(182,260)**	**6,387**	**(384,359)**

As disclosed in Note 5, the Group has revalued its property, plant and equipment as of 31 December 2008. The deferred tax of LTL 123,168 thousand arising from this revaluation (increase in value) was recorded directly in equity, reducing the revaluation reserve.

25 Income tax (cont'd)

The changes of temporary differences in the Company were as follows:

	As of 31 December 2007	Recognised directly in equity	Recognised in the income statement	As of 31 December 20078
Effect of carrying non-current assets at revalued amounts and deemed cost (impairment)	1,262,949	-	(39,050)	1,223,899
Bad debts	40,433	-	(25,951)	14,482
Vacation pay reserve	3,025	-	(512)	2,513
Accruals	-	-	1,993	1,993
Impairment of non-current assets	2,466	-	216	2,682
Impairment of financial assets	2,726	-	17,679	20,405
Write down of inventories to net realisable value	396	-	462	858
Written-off capitalized interest	450	-	(450)	-
Effect of carrying non-current assets at revalued amounts and deemed cost (increase in value)	(2,511,305)	(604,038)	118,100	(2,997,243)
Carrying amount of non-current assets acquired under IInd investment exemption for tax purpose (excluding construction in progress)	(169,762)	-	11,571	(158,191)
Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting	(8,837)	-	188	(8,649)
Construction in progress acquired under IInd investment exemption in 1998–2001 and not commissioned into operation until 31 December 2008	(16)	-	-	(16)
Guarantee liability effect	-	-	(893)	(893)
Total temporary differences	**(1,377,475)**	**(604,038)**	**83,353**	**(1,898,160)**
Deferred income tax at 15 % rate	**(206,621)**	**(90,606)**	**12,503**	**(284,724)**
Effect of increase of tax rate up to 20%	**-**	**(30,202)**	**(64,611)**	**(94,813)**
Impact of income tax rate change on deemed cost accounted for directly in equity	**-**	**(58,949)**	**58,949**	**-**
Deferred tax asset valuation allowance	**(1,508)**	**-**	**(698)**	**(2,206)**
Deferred income tax liability, net	**(208,129)**	**(179,757)**	**6,143**	**(381,743)**

As disclosed in Note 5, the Company has revalued its property, plant and equipment as of 31 December 2008. The deferred tax of LTL 120,808 thousand arising from revaluation (increase in value) was accounted directly in equity, reducing revaluation reserve.

The temporary differences associated with investments in associates and a joint venture, for which deferred tax liability has not been recognised amount to LTL 848 thousand in the Group as of 31 December 2008 (LTL 415 thousand as of 31 December 2007).

Income tax expenses recognised in the income statement, attributable to current year operating result, can be reconciled with income tax expenses, calculated on profit before tax applying statutory income tax rate:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Profit before income tax	62,615	66,063	62,637	61,236
Theoretical tax calculated at the tax rate of 15 % (18 % in 2007)	9,392	9,909	11,275	11,022
Effect of non-deductable expenses and not taxable income	5,156	4,883	460	349
Change in deferred tax asset realisation allowance	736	698	83	83
Effect of change in tax rate	5,653	5,662	-	-
Income tax	**20,937**	**21,152**	**11,818**	**11,454**
Effective income tax rate, %	**33**	**32**	**19**	**19**

26 Sales

The Group's and the Company's sales comprise revenue from electricity and related services:

	Group 2008	Company 2008	Group 2007	Company 2007
Domestic sales of electricity (excluding PSO)	457,793	457,793	333,918	333,918
Public service obligations (PSO)	389,556	389,556	254,980	254,980
Electricity transmission service	242,610	242,610	234,453	234,453
Export of electricity	226,991	226,991	159,662	159,662
Capacity reserve	132,418	132,418	118,916	118,916
Other sales of electricity and related services	5,934	5,934	8,789	8,789
Revenue from connection of new users*	585	585	398	398
Total	**1,455,887**	**1,455,887**	**1,111,116**	**1,111,116**

* The Company and the Group had accounted for LTL 14,329 thousand (LTL 13,620 thousand as of 31 December 2007) of deferred revenue related to connection of new users and related advances received from new users (Note 22) for connection to electricity network amounting to LTL 22,673 thousand (LTL 19,283 thousand as of 31 December 2007) which are reclassified to deferred revenue upon the provision of connection services. The Company/Group recognises the revenue in the income statement during the usefull life of created property, plant and equipment. During year 2008 the Company/Group has recognised LTL 585 thousand (LTL 398 thousand in 2007) of revenue from connection of new users.

27 Business and geographical segments

The Group has separated the following business segments (activities):

Electricity transmission segment is engaged in providing transmission services to network customers and is responsible for management, maintenance, expansion, integrity and coherence of power system, as well as balancing of power and ensuring reliable and safe operation of the entire Lithuanian power system. Also the expenses of this segment include purchases of PSO energy.

Energy trade segment is engaged in a wholesale of energy in a domestic market.

Export/import activity is related to export of energy to Latvia, Estonia and via Estlink cable to Finland, also related to sale of energy for export to Russia. Imported electricity is either sold to export clients or is sold to domestic users, in which case the respective revenue is included in the Energy trade segment.

Generation activity segment includes the production of electricity by Kruonis Pumped Storage Power Plant and Kaunas Hydro Power Plant for compensation of technological expenses of transmission networks and balancing of consumption.

Other activity segment is engaged in provision of repair of power equipment services, designing works of power objects and other services in Lithuania. In 2008 the Group Companies have also provided repair of power equipment services in Russia and Germany (in 2007 services provided in Sweden and Germany).

Energy trade and related services between Company's segments are performed at cost (without mark-up), except for power reserve trade, the price of which is set by the regulator.

Intercompany transactions are performed at market prices.

27 Business and geographical segments (cont'd)

As of 31 December 2008 and for the year then ended the information of the Group about segments was as follows:

	Business segments					
Group 2008	**Electricity transmission**	**Energy trade**	**Export / import activity**	**Generation**	**Other activity**	**Total**
Income	**800,608**	**505,027**	**412,196**	**90,577**	**85,277**	**1,893,685**
Incl. internal turnover among the Company's segments	*30,132*	*47,077*	*184,735*	*90,577*	*84*	*352,605*
Income after eliminating internal turnover among the Company's segments	770,476	457,950	227,461	-	85,193	1,541,080
Incl. internal turnover among the Group companies	-	-	-	-	*10,790*	*10,790*
Income after eliminating internal turnover among the Group companies	**770,476**	**457,950**	**227,461**	-	**74,403**	**1,530,290**
Expenses	**731,750**	**506,310**	**399,110**	**89,211**	**103,147**	**1,829,528**
Incl. internal turnover among the Company's segments	*35,691*	*228,177*	*39,598*	*49,055*	*84*	*352,605*
Expenses after eliminating internal turnover among the Company's segments	696,059	278,133	359,512	40,156	103,063	1,476,923
Incl. internal turnover among the Group companies	*639*	-	-	*1,213*	*9,095*	*10,947*
Expenses after eliminating internal turnover among the Group companies	**695,420**	**278,133**	**359,512**	**38,943**	**93,968**	**1,465,976**
Profit (loss) from ordinary activities (before eliminating internal turnover)	**68,858**	**(1,283)**	**13,086**	**1,366**	**(17,870)**	**64,157**
Elimination of internal turnover	(6,198)	(181,100)	145,137	40,309	1,695	(157)
Profit (loss) from ordinary activities (after eliminating internal turnover)	**75,056**	**179,817**	**(132,051)**	**(38,943)**	**(19,565)**	**64,314**
Unallocated expenses						-
Profit before income tax and financial items						64,314
Financial income (expenses), net						(1,699)
Profit before income tax						62,615
Income tax						(20,937)
Net profit for the year						**41,678**

Segment's assets	2,759,042	23,752	19,226	452,219	93,032	3,347,271
Unallocated assets						105,185
Total assets						3,452,456
Segment's liabilities	37,011	33,010	19,443	1,610	14,549	105,623
Unallocated liabilities						657,105
Total liabilities						762,728
Segment's capital expenditure	134,811	-	-	16,869	4,818	156,498
Unallocated capital expenditure						517
Total capital expenditure						157,015
Depreciation and amortisation	112,019	11	11	16,531	9,535	138,107
Unallocated depreciation and amortisation						-
Total depreciation and amortisation						138,107
Impairment	11,217	-	-	769	15,925	27,911
Unallocated impairment						885
Total impairment						28,796

27 Business and geographical segments (cont'd)

As of 31 December 2008 and for the year then ended the information of the Company about segments was as follows:

Company 2008	Electricity transmission	Energy trade	Export / import activity	Generation	Other activity	Total
	Business segments					
Income	**800,608**	**505,027**	**412,196**	**90,577**	**26,491**	**1,834,899**
Incl. internal turnover among the Company's segments	*30,132*	*47,077*	*184,735*	*90,577*	*84*	*352,605*
Income after eliminating internal turnover among the Company's segments	**770,476**	**457,950**	**227,461**	**-**	**26,407**	**1,482,294**
Expenses	**731,750**	**506,309**	**399,110**	**89,211**	**24,770**	**1,751,150**
Incl. internal turnover among the Company's segments	*35,691*	*228,177*	*39,598*	*49,055*	*84*	352,605
Expenses after eliminating internal turnover among the Company's segments	**696,059**	**278,132**	**359,512**	**40,156**	**24,686**	**1,398,545**
Profit (loss) from ordinary activities (before eliminating internal turnover)	**68,858**	**(1,282)**	**13,086**	**1,366**	**1,721**	**83,749**
Elimination of internal turnover	(5,559)	(181,100)	145,137	41,522	-	-
Profit (loss) from ordinary activities (after eliminating internal turnover)	**74,417**	**179,818**	**(132,051)**	**(40,156)**	**1,721**	**83,749**
Unallocated expenses						-
Profit before income tax and financial items						83,749
Financial income (expenses), net						(17,686)
Profit before income tax						66,063
Income tax						(21,152)
Net profit for the year						**44,911**
Segment's assets	2,759,042	23,752	19,226	452,219	53,520	3,307,759
Unallocated assets						121,719
Total assets						3,429,478
Segment's liabilities	37,011	33,010	19,443	1,610	-	91,074
Unallocated liabilities						657,105
Total liabilities						748,179
Segment's capital expenditure	134,811	-	-	16,869	-	151,680
Unallocated capital expenditure						470
Total capital expenditure						152,150
Depreciation and amortisation	112,018	11	11	16,531	7,829	136,400
Unallocated depreciation and amortisation						-
Total depreciation and amortisation						136,400
Impairment	11,217	-	-	769	-	11,986
Unallocated impairment						18,563
Total impairment						30,549

27 Business and geographical segments (cont'd)

As of 31 December 2007 and for the year then ended the information of the Group about segments was as follows:

	Business segments					
Group 2007	**Electricity transmission**	**Energy trade**	**Export/ import activity**	**Generation**	**Other activity**	**Total**
Income	**385,754**	**636,467**	**295,547**	**91,061**	**97,013**	**1,505,842**
Incl. internal turnover among the Company's segments	*29,251*	*42,047*	*135,752*	*91,061*	*34*	*298,145*
Income after eliminating internal turnover among the Company's segments	356,503	594,420	159,795	-	96,979	1,207,697
Incl. internal turnover among the Group companies	-	-	-	-	*7,038*	7,038
Income after eliminating internal turnover among the Group companies	**356,503**	**594,420**	**159,795**	**-**	**89,941**	**1,200,659**
Expenses	**348,418**	**631,368**	**277,845**	**84,550**	***95,431***	**1,437,612**
Incl. internal turnover among the Company's segments	*39,892*	*170,732*	*41,726*	*45,771*	*9*	*298,130*
Expenses after eliminating internal turnover among the Company's segments	308,526	460,636	236,119	38,779	95,422	1,139,482
Incl. internal turnover among the Group companies	*93*	-	-	-	*6,915*	*7,008*
Expenses after eliminating internal turnover among the Group companies	**308,433**	**460,636**	**236,119**	**38,779**	**88,507**	**1,132,474**
Profit (loss) from ordinary activities (before eliminating internal turnover)	**37,336**	**5,099**	**17,702**	**6,511**	**1,582**	**68,230**
Elimination of internal turnover	(10,734)	(128,685)	94,026	45,290	148	(45)
Profit (loss) from ordinary activities (after eliminating internal turnover)	**48,070**	**133,784**	**(76,324)**	**(38,779)**	**1,434**	**68,185**
Unallocated expenses						-
Profit before income tax and financial items						68,185
Financial income (expenses), net						(5,548)
Profit before income tax						62,637
Income tax						(11,818)
Net profit for the year						**50,819**
Segment's assets	2,136,439	43,048	11,475	421,708	95,689	2,708,359
Unallocated assets						58,321
Total assets						2,766,680
Segment's liabilities	15,149	62,072	18,514	1,770	16,977	114,482
Unallocated liabilities						439,829
Total liabilities						554,311
Segment's capital expenditure	165,254	-	-	2,974	834	169,062
Unallocated capital expenditure						1,061
Total capital expenditure						170,123
Depreciation and amortisation	119,789	136	11	16,300	10,022	146,258
Unallocated depreciation and amortisation						-
Total depreciation and amortisation						146,258
Impairment	1,250	-	-	(1)	86	1,335
Unallocated impairment						20
Total impairment						1,355

27 Business and geographical segments (cont'd)

As of 31 December 2007 and for the year then ended the information of the Company about segments was as follows:

Company 2007	Business segments: Electricity transmission	Energy trade	Export/ import activity	Generation	Other activity	Total
Income	**385,754**	**636,467**	**295,547**	**91,061**	**22,782**	**1,431,611**
Incl. internal turnover among the Company's segments	*29,251*	*42,047*	*135,752*	*91,061*	*34*	*298,145*
Income after eliminating internal turnover among the Company's segments	**356,503**	**594,420**	**159,795**	**-**	**22,748**	**1,133,466**
Expenses	**348,418**	**631,368**	**277,845**	**84,550**	**22,538**	**1,364,719**
Incl. internal turnover among the Company's segments	*39,892*	*170,732*	*41,726*	*45,771*	*9*	*298,130*
Expenses after eliminating internal turnover among the Company's segments	**308,526**	**460,636**	**236,119**	**38,779**	**22,529**	**1,066,589**
Profit (loss) from ordinary activities (before eliminating internal turnover)	**37,336**	**5,099**	**17,702**	**6,511**	**244**	**66,892**
Elimination of internal turnover	(10,641)	128,685	(94,026)	(45,290)	25	(15)
Profit (loss) from ordinary activities (after eliminating internal turnover)	**47,977**	**133,784**	**(76,324)**	**(38,779)**	**219**	**66,877**
Unallocated expenses						-
Profit before income tax and financial items						66,877
Financial income (expenses), net						(5,641)
Profit before income tax						61,236
Income tax						(11,454)
Net profit for the year						**49,782**
Segment's assets	2,136,439	43,048	11,475	421,708	49,917	2,662,587
Unallocated assets						84,788
Total assets						2,747,375
Segment's liabilities	15,149	62,072	18,514	1,770	-	97,505
Unallocated liabilities						439,829
Total liabilities						537,334
Segment's capital expenditure	165,254	-	-	2,974	-	168,228
Unallocated capital expenditure						993
Total capital expenditure						169,221
Depreciation and amortisation	119,789	136	11	16,300	8,280	144,516
Unallocated depreciation and amortisation						-
Total depreciation and amortisation						144,516
Impairment	1,250	-	-	(1)	-	1,249
Unallocated impairment						547
Total impairment						1,796

Secondary reporting format is geographical segments. The Company exports electricity to the countries of the European Union and Russia. In 2008 it earned LTL 211.2 million revenues from the exports (in 2007 – LTL 137.5 million). In addition to that, Group exported metal constructions and repair services.

In 2008 and 2007 the Group's and the Company's income according to geographical segments was as follows:

Country	**Group 2008**	**Company 2008**	**Group 2007**	**Company 2007**
Lithuania	1,311,925	1,266,558	1,059,474	996,007
Russia	820	-	49,245	47,031
Finland	76,445	75,714	39,683	39,683
Latvia	56,214	56,171	29,763	29,735
Estonia	83,895	83,851	21,184	21,010
Germany	991	-	1,218	-
Sweden	-	-	92	-
Total:	**1,530,290**	**1,482,294**	**1,200,659**	**1,133,466**

27 Business and geographical segments (cont'd)

Apart from direct exports, the Company sells peak energy intended for exports. In 2008, LTL 4.4 million was earned from the sales of peak energy (LTL 9.98 million in 2007). The Company has also been selling for export the electricity produced during holidays and weekends. In 2008, the income from such sales amounted to LTL 3.6 million (in 2007 – LTL 12.2 million).

All assets of the Group and the Company are located in Lithuania.

28 Other operating in come

In 2008 and 2007 the Group's and the Company's other operating income comprise:

	Group 2008	Company 2008	Group 2007	Company 2007
Repair services	46,670	-	65,613	-
Data transmission	13,113	13,113	11,871	11,871
Internet services	3,425	3,433	2,990	2,997
Rent of facilities	2,572	2,572	2,567	2,567
Rent of property	3,271	3,319	2,237	2,231
Health, catering and recreation services	1,186	896	1,165	880
IT services	541	541	447	447
Voice telephony services	519	559	421	461
Engineering services	297	-	370	-
Gain on disposal of property, plant and equipment	-	-	147	285
Other income	2,809	1,974	1,715	611
Total other operating income	**74,403**	**26,407**	**89,543**	**22,350**

Repair service revenue represents contract revenue earned by subsidiary UAB Kauno Energetikos Remontas (there is no contract revenue in the Company). The information about contracts in progress as of 31 December 2008 and 2007:

	2008	2007
Repair services income from projects in progress recognised from the beginning of the project	19,945	33,658
Total repair services expenses recognised from the beginning of the project	18,633	27,157
Repair services income recorded in the current year income statement	332	13,011
Repair services expenses recorded in the current year income statement	338	10,523
Unbilled revenue	-	-
Trade receivables (accounted for in accounts receivable caption)	9,266	14,378
Advances received	876	4,140

29 Income from financing activities

Income from financing activities of the Group and the Company in 2008 and 2007 is as follows:

	Group 2008	Company 2008	Group 2007	Company 2007
Interest income	1,539	1,476	542	405
Foreign currency exchange gain	47	44	120	127
Dividends received	-	633	-	413
Other income	983	912	-	-
Total income from financing activities	**2,569**	**3,065**	**662**	**945**

30 Other expenses from financing activities

Other expenses from financing activities of the Group and the Company in 2008 and 2007 are as follows:

	Group 2008	Company 2008	Group 2007	Company 2007
Interest expenses	(2,537)	(2,477)	(5,428)	(5,410)
Foreign currency exchange loss	(49)	(39)	(501)	(501)
Financing costs	(68)	(68)	(67)	(67)
Other expenses	(13)	(14)	(82)	(2)
Total expenses from financing activities	**(2,667)**	**(2,598)**	**(6,078)**	**(5,980)**

31 Discontinued operations

On 28 August 2008 the Nuclear energy segment was sold to LEO LT, AB subsidiary UAB Visagino Atominė Elektrinė. Nuclear energy segment was involved in development of a new nuclear power plant project: feasibily studies, environmental and legal studies etc. Sales proceeds amounted to LTL 6,283 thousand, and gain on sales amounted to LTL 0 thousand as total expenses that have been incurred and reported in income statements of the Group/Company in the periods prior to sales transaction totalled to LTL 6,283 thousand.

	Group 2008	Company 2008	Group 2007	Company 2007
Revenue (represents sales proceeds only)	6,283	6,283	-	-
Expenses	(3,852)	(3,852)	(2,431)	(2,431)
Operating profit	2,431	2,431	(2,431)	(2,431)
Profit tax (represents only tax on the gain on sales)	(365)	(365)	-	-
Net profit (loss) for the year from a discontined operation	**2,066**	**2,066**	**(2,431)**	**(2,431)**

There were no assets or liabilities attributed to this segment. All segment's cash flows are operating and amount to LTL 2,066 thousand in 2008 and LTL 2,431 thousand in 2007.

Earnings per share of discontinued operations amount to LTL 0.004 in 2008 and LTL (0.3) in 2007.

32 Related party transactions

Sale and purchase of goods and services:

The Group's transactions with related parties during the year 2008 and the balances as of 31 December 2008 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministry of Economy of the Republic of Lithuania	39,241	105	587,035	39,768
LEO LT, AB and its subsidiaries	4,852	54,744	33,655	1,039,300
Associates of the Group	45	19	14,883	468
Total	**44,138**	**54,868**	**635,573**	**1,079,536**

The Company's transactions with related parties during the year 2008 and the balances as of 31 December 2008 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministry of Economy of the Republic of Lithuania	39,240	105	587,002	38,858
LEO LT, AB and its subsidiaries	4,821	54,744	33,260	1,039,102
Subsidiaries of the Company	1,571	32	10,665	126
Associates of the Company	45	19	14,883	468
Total	**45,677**	**54,900**	**645,810**	**1,078,554**

The Group's transactions with related parties during the year 2007 and the balances as of 31 December 2007 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministry of Economy of the Republic of Lithuania	48,614	53,993	429,268	499,160
Associates of the Group	786	3,446	11,369	345
Total	**49,400**	**57,439**	**440,637**	**499,505**

The Company's transactions with related parties during the year 2007 and the balances as of 31 December 2007 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministry of Economy of the Republic of Lithuania	48,601	51,564	429,156	485,949
Subsidiaries of the Company	1,489	12	7,472	409
Associates of the Company	786	3,256	11,369	118
Total	**50,876**	**54,832**	**447,997**	**486,476**

The largest sales and purchases to/from entities contolled by the Ministry of Economy of the Republic of Lithuania in 2008 and 2007 represented transactions with VĮ Ignalinos atominė elektrinė (state company Ignalina nuclear power plant) and AB Lietuvos Elektrinė (Lithuanian power plant) (and AB Rytų skirstomieji tinklai in 2007). Purchases from these related parties mainly include purchases of electricity, capacity, and PSO services. Sales mainly included electricity, capacity, electricity transmission services and PSO services.

Transactions with state entities, other than controlled by the Ministry of Economy of the Republic of Lithuania, constituted regular business transactions at arm's length and were not included in the tables above.

The largest sales and purchases with LEO LT, AB Group in 2008 included transactions with AB Rytų skirstomieji tinklai, AB VST and LEO LT, AB (transactions with AB Rytų skirstomieji tinklai were included under entities contolled by the Ministry of Economy of the Republic of Lithuania in 2007 and AB VST was not a related party). Sales to AB Rytų skirstomieji tinklai and AB VST included sales of electricity and electricity transmission service, also transactions included sales-purchases of PSO. LEO LT, AB provided entity with management services in 2008 (no such services in 2007).

In addition to the above, in 2008 the Company sold a project related to the initial stage of the development of the new nuclear power station to a subsidiary of LEO LT, AB as disclosed in Note 31 in detail.

Associated entity AS Nordic Energy Link AB had sales of capacity to the Company as well as paid capacity, maintenance and transmission fees.

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

There were no guarantees or pledges given or received in respect of the related party payables and receivables. Related party payables and receivables are expected to be settled in cash or set-off against payables/receivables to/from a respective related party.

Remuneration of the management

	Group 2008	Company 2008	Group 2007	Company 2007
Payroll-related remuneration	3,734	2,410	2,269	1,383
Other material amounts (bonuses for Board members)	80	80	70	70
Number of management (average per annum)	26	7	25	12

Management consists of Board members, heads of administration and their deputies, chief accountant.

33 Basic and diluted earnings per share

In 2008 and 2007 basic and diluted earnings per share were as follows:

	2008	2007
Net profit attributable to the Company's shareholders	43,744	48,388
Weighted average number of shares (units)	689,515,435	689,515,435
Basic and diluted earnings per share (in LTL)	**0.06**	**0.07**

Net profit attributable to the Company's shareholders from continuing operations	41,678	50,819
Weighted average number of shares (units)	689,515,435	689,515,435
Basic and diluted earnings per share from continuing operations (in LTL)	**0.06**	**0.07**

34 *Dividends per share*

Dividends approved per share:

	2008	2007
Dividends approved	-	8,154
Weighted average number of shares	689,515,435	689,515,435
Dividends approved per share (in LTL)	**-**	**0.01**

35 *Financial risk management*

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

Credit risk

As of 31 December 2008 and 31 December 2007 credit risk was related to:

	Group as of 31 December 2008	Company as of 31 December 2008	Group as of 31 December 2007	Company as of 31 December 2007
Financial assets	240,061	229,013	153,621	133,096

As of 31 December 2008 and 2007 financial assets comprise government securities, trade receivables, other accounts receivable, term deposits and cash and cash equivalents.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Consequently, the Company/Group considers that its maximum exposure is reflected by the amount of trade and other receivables, net of allowance for doubtful accounts recognised at the balance sheet date.

The credit risk of the Group and the Company related to the amounts receivable is rather limited because the main buyers are reliable customers. Neither the Group nor the Company have significant credit risk concentration, because credit risks are shared among 10 main customers, which account for approximately 97 % of the total Group's and Company's trade receivables.

The credit risk on cash in banks is limited because the Group and the Company conduct transactions with the banks with high credit ratings assigned by international credit rating agencies.

Ratings of the banks issued by international rating agency Fitchratings as of 31 December 2008:

Bank	Non-current borrowing rating	Current borrowing rating
AB SEB Bankas	A+	F1
Hansabank group	A1	F1
Nordea Bank Finland Plc Lithuania Branch	AA-	F1

Ratings of the banks issued by international rating agency Standard & Poor's as of 31 December 2008:

Bank	Non-current borrowing rating	Current borrowing rating
AB SEB Bankas	A	A-1
Nordea Bank Finland Plc Lithuania Branch	AA-	A-1
UniCredit Bank	A+	A-1

Ratings of the banks issued by international rating agency Moody's as of 31 December 2008:

Bank	Non-current borrowing rating	Current borrowing rating
Hansabank group	A	P-1
Nordea Bank Finland Plc Lithuania Branch	AA1	P-1
AB SEB Bankas	AA2	P-1
UniCredit Bank	AA2	P-1

On 28 October 2008 the international credit rating agency Standard & Poor's, on the grounds of the decreased credit rating of the Republic of Lithuania, respectively downgraded the corporate non-current borrowing rating of AB Lietuvos Energija for borrowings in foreign currency from A- to BBB+, although the rating outlook was left unchanged, i.e. the on-watch negative. In order to resolve the credit watch placement, the credit rating agency has to analyze the overall financial credit strength of LEO LT, AB group.

Liquidity risk

The liquidity risk is managed by planning the Group's cash flows. In order to manage the liquidity risk, cash flow forecasts are produced. Overdraft and credit line agreements are used to manage the risk of late collection of receivables and the shortage in the short-term cash flows (proceeds and payments). The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as of 31 December 2008 were 0.97 and 0.94, respectively (0.90 and 0.83 as of 31 December 2007, respectively). The Company's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as of 31 December 2008 were 0.95 and 0.94, respectively (0.82 and 0.79 as of 31 December 2007, respectively).

The table below summarises the maturity profile of the Group's and the Company's non-derivative financial liabilities based on contractual undiscounted payments. This table has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Balances with repayment terms up to 12 months are equal to their carrying amounts, because the impact of discounting is insignificant.

Group	Within the first year	Within the second year	From three to five years	After five years
As of 31 December 2008				
Borrowings and bonds	26,167	14,470	-	-
Financial lease liabilities	595	683	1,510	-
Trade and other payables	188,460	-	-	-
As of 31 December 2007				
Borrowings and bonds	6,018	48,116	43,607	2,067
Financial lease liabilities	118	-	-	-
Trade and other payables	156,183	-	-	-

Company	Within the first year	Within the second year	From three to five years	After five years
As of 31 December 2008				
Borrowings and bonds	25,896	14,470	-	-
Trade and other payables	185,517	-	-	-
As of 31 December 2007				
Borrowings and bonds	6,018	48,116	43,607	2,067
Trade and other payables	143,495	-	-	-

Interest rate risk

The income and cash flows of the Group companies are not significantly exposed to the fluctuations of the market interest rate. The interest rate risk relates mainly to long-term borrowings. The borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. The borrowings issued at fixed interest rates increase 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 loans must be with fixed interest rate, the remaining loans – with variable interest rate.

The Group companies have loans with fixed and variable interest rates, related to EURIBOR, EUR LIBOR and VILIBOR.

The Company manages the interest rate risk by entering into interest swap agreements, usually by changing a variable interest rate into a fixed interest rate. The Company takes long-term borrowings from banks with the variable interest rate and concludes respective swap agreements for changing the variable interest rate to fixed interest rate by ensuring lower fixed interest rates as compared to those, which would have been applicable if the loan agreements with the fixed 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 variable interest rate) are exchanged with the cash flows from other financial instrument (either with fixed or variable 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 variable 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 Lithuania Branch, which ended on 30 June 2007. The Group/Company did not have any valid interest rate swap agreements as of 31 December 2008 and 2007.

Foreign exchange risk

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

Starting from 2 February 2002, LTL 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 to manage the foreign exchange risk in 2008 and 2007.

Risk of security prices

The Group's and the Company's investments in securities represents only investments in government bonds (Note 12), which are classified as held to maturity by the management. The Group/Company has not acquired any securities (shares, bonds, etc.) for trading, thus they do not face the risks related to security prices.

The Company has direct control over the subsidiaries and take part in management of associates (Note 7). Investments in these companies are accounted for at acquisition cost, which is adjusted by impairment losses, if any, in the separate financial statements of the Company. Investments in associates in the Group's consolidated financial statements are accounted for 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 affects the financial results of the Group. The Company impacts the results of its subsidiaries or associates by taking part in the formation of the management policy of operations of these companies.

Fair value of financial instruments

The Group's and the Company's principal financial instruments not carried at fair value are investments in government bonds, trade and other receivables, trade and other payables, long-term and short-term borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- The carrying amount of current trade and other accounts receivable, current trade and other accounts payable and short-term borrowings approximates fair value.
- The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

The fair value of the Group's and the Company's financial instruments as of 31 December 2008 and 31 December 2007 is disclosed under each note of the financial instrument in the explanatory notes of these financial statements.

36 Commitments and contingencies

Guarantees issued

In 2005 under the guarantee agreements the Company guaranteed for 25 % of AS Nordic Energy Link liabilities to Nordic Investment Bank (LTL 45,750 thousand) and to AB SEB Eesti Uhispank (LTL 26,759 thousand). The guarantees expire after the full repayment of the borrowings by the associate to the respective banks, i.e. 15 March 2014 and 15 September 2014 respectively. The Group/Company has accounted for this guarantee at its fair value: the carrying value of the guarantee obligation in the balance sheet amounted to LTL 1,304 thousand as of 31 December 2008 (LTL 1,642 thousand as of 31 December 2007). The Group/Company has not accounted for any additional provisions related to these guarantees, since the management expects that the associate will fulfil its liabilities to the banks.

Legal proceedings

In 2008 and 2007 the Company was involved in an arbitration dispute with Eesti Energia AS regarding performance of the agreement on the delivery of electricity signed in 2005. The parties disagreed about the orders submitted under this agreement and an obligation to supply the ordered electricity volumes. No provision for this uncertainty has been recorded as of 31 December 2007 because at the time of preparing 2007 annual financial statements the management was of the opinion of the amount claimed by Eesti Energia AS at the arbitration court was not substantiated and the reasonable estimation of actual losses (and relevant liabilities) could not be done. The arbitration ruling was announced in February 2009, which in part satisfied the claim of Eesti Energia AS, therefore, the management has accrued a respective liability in the amount of LTL 26,009 thousand in the balance sheet as of 31 December 2008, which reflect the amounts awarded to the claimant by the arbitration as well as additional claims received from Eesti Energia AS subsequent to the decision of the arbitration arising from similar transactions for the period till 31 December 2008.

As of 31 December 2008 the Company had disputed accounts payable to UAB Vilniaus Energija and AB Lietuvos elektrine related to the electricity supplied by these entities under public service obligation shceme (PSO) in the amount of LTL 7,438 thousand, which were not recorded in the balance sheet. The obligations to these suppliers were recalculated by the Company based on the actual volumes of the electricity supplied and the volumes of sponsored production levels as set by the Ministry of Economy of the Republic of Lithuania. The suppliers do not agree with the recalculation performed by the Company and claim additional payments from the Company for the PSO energy supplied in 2008, however, the management of the Company believes that these claims are not valid and therefore recorded no provision in these financial statements for this uncertainty.

Commitment to transfer Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant

According to the agreement signed by LEO LT, AB shareholders – the State of Lithuania as represented by the Ministry of Economy and UAB NDX Energija – in the process of formation of LEO LT, AB group (a national electricity company), the shares of AB Lietuvos Energija were contributed into the capital of LEO LT, AB as disclosed in Note 1. Also, the shareholders agreed, that the net assets of Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant have to be separated from AB Lietuvos Energija into separate legal entities and the shares of these newly separated entities are to be transferred to the State of Lithuania for a symbolic fee of 1 LTL by 27 May 2010.

Commitment to transfer Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant (cont'd)

The agreement allows the Company to use Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant until the date of the transfer in its operations taking into account the restrictions imposed by the agreement, e.g. the Company has to operate the assets in the same manner as until the agreement was signed, but its ability to acquire new assets or assume obligations related to power stations' assets is limited and the Company can invest in assets or maintenance of the assets up to LTL 250 thousand unless otherwise agreed between the shareholders of LEO LT, AB in advance. In addition the Company shall continue the modernisation of the power plants as pre-approved by the agreement: upon spin-off of the power plants into separate legal entities for the purpose of their transfer to the State, the new legal entities will have to assume obligations to compensate AB Lietuvos Energija for the expenditures incurred after 1 January 2008 until the date of the transfer under the power plant modernisation contract specified in the agreement.

The management of the Company started the preparation of the reorganisation plan for the separation of the power plants as provided by the agreement between the shareholders of LEO LT, AB and have identified the assets that are to be transferred to the State: the total carrying value of these assets still accounted for in the Company's and the Group's balance sheet as of 31 December 2008 is LTL 570 million and they mainly constitute property, plant and equipment (LTL 569 million) as disclosed in Note 5. However, until the date of the release of these financial statements the management of AB Lietuvos Energija as well as LEO LT, AB was unable to identify the liabilities that are to be transferred together with these assets, because the terms of the agreement signed are not sufficiently clear on the matter and can be interpreted in different ways resulting in extremely different values of the liabilities to be transferred ranging from LTL 15 million to LTL 575 million (ignoring time value) according to unaudited data. In addition, related unrecorded compensation receivable for modernisation works carried out until 31 December 2008 as described in the paragraph above amounts to LTL 25 million.

Taking into account the fact that the value of the net assets to be transferred to the State can not be reasonably estimated as of the date of the preparation of the financial statements as described above, the management has not recorded any liability in respect of this obligation. This obligation will be recorded when the amount can be estimated reducing the equity of the Company and the Group accordingly.

37 Capital management

Capital includes total equity as reported in the balance sheet.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years end 31 December 2008 and 31 December 2007.

The Group and the Company is obliged to upkeep its equity at not less than 50 % of its share capital (comprised of share capital and share surplus), as imposed by the Law on Companies of Republic of Lithuania. The Group and the Company has no additional external requirements to the capital. As of 31 December 2008 and 2007 the Group and the Company were not in breach of the above mentioned requirement.

38 Subsequent events

Received claim

Subsequent to the balance sheet date the Company was involved in a litigation by UAB Fortis Energy and UAB Kauno Termofikacinė Elektrinė disputing the terms of the agreement signed for the year 2009. Previous agreements with these parties expired on 31 December 2008 and there are no claims or disputes in respect of that agreement. The dispute, which is to be resolved in court, concerns only the provisions of the contract for 2009 transactions. The outcome of this dispute and its effects on the Company’s future operations cannot be reasonably predicted at this stage.

Distribution of earnings

The draft of earnings distribution for 2008 was not prepared by the date of the release of these financial statements.

Notes

Notes

Notes