LIETUVOS ENERGIJA AB

CONSOLIDATED AND STAND ALONE
INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD
ENDED 30 SEPTEMBER 2009 (unaudited)

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This document has been prepared in Lithuanian and in English. In all matters of interpretation of information, views or opinions, the Lithuanian version of this document takes precedence over the English version.

The interim financial statements were approved by General Director, Finance Director and Chief Financier on 18 November 2009.

Aloyzas Koryzna General Director	Darius Grondskis Finance Director	Tatjana Didikienė Chief Financier

LIETUVOS ENERGIJA

AKCINĖ BENDROVĖ LIETUVOS ENERGIJA

STATEMENT OF THE RESPONSIBLE PERSONS

Vilnius, 18th November 2009

In reference to the provisions of Article 22 of the Law on Securities of the Republic of Lithuania and the Rules for the Drawing up and Submission of the Periodic and Additional Information of the Securities Commission of the Republic of Lithuania, I, the undersigned Aloyzas Koryzna, General Director of AB „Lietuvos energija", Darius Grondskis, Finance Director and Tatjana Didikienė, Chief Financier of AB „Lietuvos Energija" hereby confirm that, to the best of our knowledge, the consolidated unaudited interim financial statements for the nine months period of year 2009, is prepared in accordance with the International Financial Reporting Standards effective in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of AB „Lietuvos Energija" for the relevant period.

Enclosure: AB „Lietuvos Energija" consolidated unaudited Interim Financial Statements for the nine months period of year 2009 - 56 pages, 1 copy.

Aloyzas Koryzna General Director	Darius Grondskis Finance Director	Tatjana Didikienė Chief Financier

STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2009
All amounts in LTL thousand, unless otherwise stated

ASSETS	Note	Group as at 30 September 2009	Company as at 30 September 2009	Group as at 31 December 2008	Company as at 31 December 2008
Non-current assets:					
Intangible assets	4	2,559	2,514	3,149	3,144
Property, plant and equipment	5	2,878,235	2,840,881	3,149,671	3,104,690
Prepayments for property, plant and equipment		17,741	17,741	21,244	21,244
Investment property	6	25,829	43,515	3,919	21,779
Investments in subsidiaries	7	-	18,068	-	18,068
Investments in associates and joint ventures	7	25,561	24,621	25,699	24,760
Accounts receivable	8	560	1,358	624	624
Other financial assets		16	16	29	15
Total non-current assets		**2,950,501**	**2,948,714**	**3,204,335**	**3,194,324**
Current assets:					
Inventories	9	9,491	3,947	6,010	4,526
Prepayments		52,389	52,262	2,050	1,615
Trade receivables	10	131,069	124,450	136,292	126,640
Other accounts receivable	11	9,773	9,888	17,118	16,773
Other financial assets	12	39,705	39,705	15,994	15,994
Term deposits	13	30,160	30,000	200	-
Cash and cash equivalents	14	62,083	60,872	70,457	69,606
Total current assets		**334,670**	**321,124**	**248,121**	**235,154**
TOTAL ASSETS		**3,285,171**	**3,269,838**	**3,452,456**	**3,429,478**
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		374,593	365,339	492,723	483,230
Legal reserve	16	68,994	68,951	70,794	68,952
Other reserves	17	(63,721)	(63,777)	1,454,530	1,451,571
Retained earnings (deficit)		1,564,966	1,570,223	(17,820)	(11,972)
Foreign currency translation reserve		-	-	(18)	-
Equity attributable to the shareholders of the parent company		**2,634,350**	**2,630,254**	**2,689,727**	**2,681,299**
Minority interest		-	-	1	-
Total equity		**2,634,350**	**2,630,254**	**2,689,728**	**2,681,299**
Non-current liabilities:					
Borrowings	18	-	-	13,811	13,811
Financial lease liabilities	19	1,648	-	1,894	-
Grants	20	72,092	72,072	66,339	66,309
Deferred income	26	16,271	16,271	14,329	14,329
Other non-current accounts payable and liabilities	21	11,416	11,416	25,597	25,597
Deferred income tax liabilities	22	340,968	338,428	384,359	381,743
Total non-current liabilities		**442,395**	**438,187**	**506,329**	**501,789**
Current liabilities:					
Borrowings	18	14,309	13,811	271	-
Bonds issued	23	-	-	25,896	25,896
Financial lease liabilities	19	343	-	595	-
Trade payables	24	128,925	129,688	158,096	153,589
Advance amounts received		11,553	11,267	1,563	3
Income tax payable		22,852	22,795	10,914	10,911
Provisions	34	8,209	8,209	26,009	26,009
Other accounts payable and liabilities	25	22,235	15,627	33,055	29,982
Total current liabilities		**208,426**	**201,397**	**256,399**	**246,390**
Total liabilities		**650,821**	**639,584**	**762,728**	**748,179**
TOTAL EQUITY AND LIABILITIES		**3,285,171**	**3,269,838**	**3,452,456**	**3,429,478**

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2009
All amounts in LTL thousand, unless otherwise stated

	Note	Group January–September 2009	Company January–September 2009	Group January–September 2008 (restated)	Company January–September 2008 (restated)
Revenue					
Sales revenue	26	1,129,268	1,129,268	1,125,282	1,125,282
Other operating income	28	34,182	20,200	60,676	18,998
		1,163,450	**1,149,468**	**1,185,958**	**1,144,280**
Operating expenses					
Purchase of electricity or related services		(750,365)	(750,365)	(757,545)	(757,545)
Purchase of capacity reserve		(84,477)	(84,477)	(73,243)	(73,243)
Transit expenses		(2,454)	(2,454)	(3,791)	(3,791)
Depreciation and amortisation		(133,081)	(131,606)	(103,029)	(101,680)
Wages and related expenses		(46,253)	(36,403)	(58,684)	(43,343)
Repair and maintenance expenses		(8,036)	(8,175)	(24,036)	(25,024)
Loss on revaluation of property, plant and equipment		(59,552)	(59,446)	-	-
Other expenses		(36,517)	(29,797)	(61,870)	(35,767)
Total operating expenses		**(1,120,735)**	**(1,102,723)**	**(1,082,198)**	**(1,040,393)**
OPERATING PROFIT (LOSS)		**42,715**	**46,745**	**103,760**	**103,888**
Finance income	29	6,045	6,059	1,061	1,600
Finance (costs):					
Impairment of investments	7	(138)	(138)	-	-
Other finance (costs)	30	(1,470)	(1,318)	(2,256)	(2,300)
PROFIT (LOSS) BEFORE INCOME TAX		**47,152**	**51,348**	**102,565**	**103,188**
Current year income tax expense	22	(30,861)	(30,804)	(18,308)	(18,200)
Deferred tax income (expense)	22	20,249	20,334	2,417	2,434
NET PROFIT (LOSS)		**36,540**	**40,878**	**86,674**	**87,422**
Other comprehensive income					
Loss from property, plant and equipment revaluation	5	(114,901)	(114,901)	-	-
Foreign currency translation		-	-	(2)	-
Deferred income tax on loss from property, plant and equipment revaluation	22	22,980	22,980	-	-
Other comprehensive income, net of tax		(91,921)	(91,921)	(2)	-
TOTAL COMPREHENSIVE INCOME		**(55,381)**	**(51,043)**	**86,672**	**87,422**
PROFIT (LOSS) ATTRIBUTABLE TO:					
Shareholders of the Company		36,540	40,878	86,674	87,422
Minority interest		-	-	-	-
		36,540	**40,878**	**86,674**	**87,422**
TOTAL COMPREHENCIVE INCOME ATTRIBUTABLE TO:					
Shareholders of the Company		(55,381)	(51,043)	86,672	87,422
Minority interest		-	-	-	-
		(55,381)	**(51,043)**	**86,672**	**87,422**
Basic and diluted earnings (deficit) per share (in LTL)	32	**0.05**	**0.06**	**0.13**	**0.13**

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2009
All amounts in LTL thousand, unless otherwise stated

	Note	Group July–September 2009	Company July–September 2009	Group July–September 2008 (restated)	Company July–September 2008 (restated)
Revenue					
Sales revenue		324,612	324,612	491,952	491,952
Other operating income		11,477	6,616	16,866	7,275
		336,089	**331,228**	**508,818**	**499,227**
Operating expenses					
Purchase of electricity or related services		(150,624)	(150,624)	(361,843)	(361,843)
Purchase of capacity reserve		(31,170)	(31,170)	(24,205)	(24,205)
Transit expenses		(675)	(675)	(905)	(905)
Depreciation and amortisation		(45,228)	(44,730)	(34,521)	(34,138)
Wages and related expenses		(13,272)	(10,302)	(17,874)	(13,478)
Repair and maintenance expenses		(3,438)	(3,390)	(7,529)	(8,426)
Loss on revaluation of property, plant and equipment		(4,269)	(4,247)	-	-
Other expenses		(11,041)	(9,181)	(20,106)	(13,853)
Total operating expenses		**(259,717)**	**(254,319)**	**(466,983)**	**(456,848)**
OPERATING PROFIT (LOSS)		**76,372**	**76,909**	**41,835**	**42,379**
Finance income		2,585	2,618	574	545
Finance (costs):					
Impairment of investments		-	-	606	685
Other finance (costs)		(458)	(440)	(690)	(749)
PROFIT (LOSS) BEFORE INCOME TAX		**78,499**	**79,087**	**42,325**	**42,860**
Current year income tax expense		(6,435)	(6,431)	(3,066)	(3,117)
Deferred tax income (expense)		(9,124)	(9,071)	(3,324)	(3,293)
NET PROFIT (LOSS)		**62,940**	**63,585**	**35,935**	**36,450**
Other comprehensive income					
Loss from property, plant and equipment revaluation		(5,392)	(5,392)	(2)	-
Deferred income tax on loss from property, plant and equipment revaluation		1,078	1,078	-	-
Other comprehensive income, net of tax		(4,314)	(4,314)	(2)	-
TOTAL COMPREHENSIVE INCOME		**58,626**	**59,271**	**35,933**	**36,450**
PROFIT (LOSS) ATTRIBUTABLE TO:					
Shareholders of the Company		62,940	63,585	35,935	36,451
Minority interest		-	-	-	-
		62,940	**63,585**	**35,935**	**36,451**
TOTAL COMPREHENCIVE INCOME ATTRIBUTABLE TO:					
Shareholders of the Company		58,626	59,271	35,933	36,450
Minority interest		-	-	-	-
		58,626	**59,271**	**35,933**	**36,450**

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2009
All amounts in LTL thousand, unless otherwise stated

		Equity attributable to the shareholders of the Company									
Group	**Note**	**Share capital**	**Share premium**	**Revaluation reserve**	**Legal reserve**	**Other reserves**	**Retained earnings (deficit)**	**Foreign currency translation reserve**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2007		**689,515**	**3**	**-**	**70,730**	**1,404,786**	**47,335**	**(2)**	**2,212,367**	**1**	**2,212,368**
Reserves established		-	-	-	64	51,496	(51,560)	-	-	-	-
Reserves utilised		-	-	-	-	(1,700)	1,700	-	-	-	-
Total comprehensive income		-	-	-	-	-	50,739	(2)	50,737	-	50,737
Balance at 30 September 2008		**689,515**	**3**	**-**	**70,794**	**1,454,582**	**48,214**	**(4)**	**2,263,104**	**1**	**2,263,105**
Balance at 31 December 2008		**689,515**	**3**	**492,723**	**70,794**	**1,454,530**	**(17,820)**	**(18)**	**2,689,730**	**1**	**2,689,731**
Transfer into retained earnings (depreciation less deferred tax)		-	-	(25,970)	-	-	25,970	-	-	-	-
Other transfers between reserves	17	-	-	(239)	(1,800)	(1,518,251)	1,520,276	18	1	(1)	-
Total comprehensive income		-	-	(91,921)	-	-	36,540	-	(55,381)	-	(55,381)
Balance at 30 September 2009		**689,515**	**3**	**374,593**	**68,994**	**(63,721)**	**1,564,966**	**-**	**2,634,350**	**-**	**2,634,350**

(Continued to the next page)

STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2009
All amounts in LTL thousand, unless otherwise stated

Company	Notes	Share capital	Share premium	Revaluation reserve	Legal reserve	Other reserves	Retained earnings (deficit)	Total equity
Balance at 31 December 2007		**689,515**	**3**	**-**	**68,952**	**1,402,660**	**48,911**	**2,210,041**
Reserves established		-	-	-	-	50,611	(50,611)	-
Reserves utilised		-	-	-	-	(1,700)	1,700	-
Total comprehensive income		-	-	-	-	-	50,971	50,971
Balance at 30 September 2008		**689,515**	**3**	**-**	**68,952**	**1,451,571**	**50,971**	**2,261,012**
Balance at 31 December 2008		**689,515**	**3**	**483,230**	**68,952**	**1,451,571**	**(11,972)**	**2,681,299**
Transfer into retained earnings (depreciation less deferred tax)		-	-	(25,970)	-	-	25,970	-
Other transfers between reserves	17	-	-	-	-	(1,515,348)	1,515,348	-
Total comprehensive income		-	-	(91,921)	-	-	40,878	(51,043)
Balance at 30 September 2009		**689,515**	**3**	**365,339**	**68,951**	**(63,777)**	**1,570,224**	**2,630,255**

(end)

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

STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2009
All amounts in LTL thousand, unless otherwise stated

	Note	Group as at 30 September 2009	Company as at 30 September 2009	Group as at 30 September 2008 (restated)	Company as at 30 September 2008 (restated)
Net profit (loss)		**36,540**	**40,878**	**86,672**	**87,422**
Reversal of non-monetary expenses (income) and other adjustments					
Depreciation and amortisation expenses	4,5,6	135,172	133,543	104,521	102,999
(Income) from grants and connection of new users	21,26	5,753	5,763	(1,336)	(1,319)
Change in deferred tax liability	22	(43,391)	(43,315)	(2,417)	(2,434)
(Reversal) of impairment charge on assets		(832)	(825)	(1,408)	(1,408)
Loss on property, plant and equipment revaluation		82,535	82,423	-	-
Income tax expense	22	30,861	30,804	18,308	18,201
Loss on disposal/write-off of non-current assets (except financial assets)		3,180	969	741	742
Elimination of results of financing and investing activity:					
- Dividends		-	-	-	(633)
- Effect of changes in foreign exchange rates, net		6	12	(8)	(8)
- Financing expenses		1,434	1,282	1,209	1,180
- Financing (income)		(5,816)	(5,830)	(979)	(925)
- Other finance (income) costs		(199)	1,100	(25)	35
Changes in working capital					
Decrease (increase) in inventories		76	464	854	(343)
Decrease (increase) in prepayments		(46,836)	(47,144)	589	909
(Increase) in trade receivables		7,776	3,042	(97,374)	(102,290)
(Increase) decrease in other receivables		8,723	9,715	(15,255)	(15,385)
(increase) decrease in other current assets		13	(1)	2,392	2,402
Increase (decrease) in current trade payables and advance amounts received		(19,181)	(12,637)	98,425	103,599
Increase (decrease) in employment-related liabilities		(1,487)	1,012	2,011	2,477
Increase in other accounts payable		(40,765)	(46,300)	(12,174)	(9,433)
Interest received		3,672	3,664	1,005	966
Interest (paid)		(1,738)	(1,672)	(1,601)	(1,572)
Income tax (paid)		(18,923)	(18,920)	(16,035)	(15,842)
Net cash flows from operating activities		**136,573**	**138,027**	**168,115**	**169,340**
Cash flows from investing activities					
Purchase of property, plant and equipment (PP&E) and intangible assets		(64,966)	(64,892)	(93,203)	(92,781)
Proceeds from sale of PP&E and intangible assets		(131)	-	45	-
Loans (granted)		-	(2,250)	-	-
Loans repaid		-	-	1,524	1,524
Term deposits		(29,960)	(30,000)	-	-
(Acquisition) of other debt securities	12	(39,705)	(39,705)	-	-
Proceeds from disposal of debt securities	12	15,994	15,994	-	-
(Repayments) of debt securities		(25,896)	(25,896)	-	-
(Acquisition) of investments		-	-	(1,020)	(1,020)
Dividends received		-	-	-	633
Net cash flows from investing activities		**(144,664)**	**(146 ,749)**	**(92,654)**	**(91,644)**
Cash flows from financing activities					
Proceeds from borrowings		227	-	24,066	24,066
(Repayment) of borrowings		-	-	(74,180)	(74,180)
Finance lease (payments)		(498)	-	(176)	-
Dividends (paid)		(12)	(12)	(45)	(45)
Other cash flows from financing activities		-	-	(35)	(35)
Net cash flows from financing activities		**(283)**	**(12)**	**(50,370)**	**(50,194)**
Net increase (decrease) in cash flows		**(8,374)**	**(8,734)**	**25,091**	**27,502**
Cash and cash equivalents at beginning of period		**70,457**	**69,606**	**18,318**	**14,566**
Cash and cash equivalents at end of period		**62,083**	**60,872**	**43,409**	**42,068**

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

1 *General information*

AB Lietuvos Energija is a public company registered in the Republic of Lithuania. The address of its registered office is Žvejų g. 14, LT-09310, Vilnius, Lithuania. AB Lietuvos Energija (hereinafter referred to as the "Company") is a limited liability profit-making entity, registered in the Register of Legal Entities managed by the public institution Registrų Centras. The Company's registration date is 4 December 1995, reg. No. BĮ 99-74, business ID 220551550, VAT reg. No. 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 with the Ministry of Economy.

The share capital of the Company did not change in 2009 and 2008, and as at 30 September 2009 amounted to LTL 689,515,435 and was divided into 689,515,435 ordinary registered shares with the nominal value of LTL 1 each. All the shares are fully paid. The shares of the Company are traded on the current trading list of Vilnius Stock Exchange. The Company did not hold own shares in 2009 and 2008.

By its resolution No. 364 dated 24 April 2008 the Government of the Republic of Lithuania declared that 664,700,833 ordinary registered shares of Lietuvos Energija AB 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 the Economy for the increase of the 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 VST AB, Rytų Skirstomieji Tinklai AB and Lietuvos Energija AB. The main shareholder of the Company is LEO LT, AB, owning 96.40 per cent of the Company's shares as at 30 September 2009. The remaining 3.60 per cent of the Company's shares are held by other shareholders.

The core activities of the Company in 2009 just like in 2008 included the transmission system operator, market operator, electricity production and electricity export. Apart from these key activities, the Company is entitled to carry out any other business activities that are not prohibited by the Lithuanian law and are specified in the Articles of Association 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 the production, import and export of electricity.

As at 30 September 2009, 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 34, 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 at a symbolic price of 1 LTL by 27 May 2010.

As at the date of issue of these interim financial statements the Company directly participated (controlled or had significant influence) in the management of the following companies: Nordic Energy Link AS (Estonia), Energetikos Pajėgos UAB (Lithuania), Geoterma UAB (Lithuania), Kruonio Investicijos UAB (Lithuania) and Kauno Energetikos Remontas UAB (Lithuania). Indirectly, through Kauno Energetikos Remontas UAB, the Company had majority of votes in Gotlitas UAB (Lithuania) and until 2 June 2009 - Kaliningradski Energoremont OOO (Russia) , when the shares Kaliningradski Energoremont OOO were disposed and had significant influence in Enmašas UAB (Lithuania). In addition as at 30 September 2009 the Company jointly controls LitPol Link Sp.z.o.o (Poland), which was established on 8 August 2008. For more detail information of associates and joint ventures, see Note 7.

The consolidated interim financial statements of Lietuvos Energija AB and its subsidiaries and the separate interim financial statements of Lietuvos Energija AB as a parent company are presented in these interim financial statements. As at 30 September 2009, the Group consisted of Lietuvos Energija AB and the following directly and indirectly controlled subsidiaries:

Company	Address of the company's registered office	Shareholding of the Group as at 30 September 2009	Share capital of the subsidiary as at 30 September 2009	Profit (loss) for nine month of 2009	Equity as at 30 September 2009	Principal activities
Energetikos Pajėgos UAB	T.Masiulio g. 16D, Kaunas, Lithuania	100%	430	229	822	Designing of energy facilities
Kauno energetikos remontas UAB	Chemijos g. 17, Kaunas, Lithuania	100%	31,341	(4,128)	31,282	Repair of energy equipment, production of metal structures
Kruonio investicijos UAB	Kruonio IIk., Kaišiadorys district, Lithuania	100%	2,361	(143)	1,611	Development of public and recreational facilities
Gotlitas UAB	R.Kalantos g. 119, Kaunas, Lithuania	100%	1,450	2,044	(12)	Accommodation services, trade

As at 30 September 2009, the number of employees of the Group was 1,192 (31 December 2008: 1,409). As at 30 September 2009, the number of employees of the Company was 888 (31 December 2008: 967).

2 *Accounting policies*

The principal accounting policies adopted in the preparation of the Group's and the Company's interim financial statements for the nine month period of 2009 are as follows:

2.1 Basis of preparation

The interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (the "EU") applicable to interim financial reporting (IAS 34 Interim financial reporting).

These interim financial statements have been prepared on a historical cost basis, except for property, plant and equipment which have been recorded at revalued amount, less accrued depreciation and estimated impairment loss (see Note 2.8).

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

2.2 Change of accounting policies

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

a) Adoption of new and (or) amended IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

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

- ***IAS 1, Presentation of Financial Statements*** (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group and Company changed the presentation of its financial statements but it had no impact on the recognition or measurement of specific transactions and balances.

- ***IFRS 8, Operating Segments*** (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The change in Group's segment disclosures in the financial statements are described in Note 27.

- ***IAS 23, Borrowing Costs*** (effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This amendment is not applicable to the Company's and Group's financial statements.

- ***Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment*** (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. This amendment is not applicable to the Company's and Group's financial statements.

- ***Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment*** (effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment is not applicable to the Company's and Group's financial statements.

- ***Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment*** (effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. This amendment is not applicable to the Company's and Group's financial statements.

2 Accounting policies (continued)

2.2 Change of accounting policy (continued)

***a) Adoption of new and (or) amended IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)* (continued)**

- ***IFRIC 13, Customer Loyalty Programmes*** (effective for annual periods beginning on or after 1 July 2008 for financial statements prepared under IFRS; adopted by the EU with an effective date postponed to annual periods beginning after 31 December 2008; early adoption permitted). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation is not applicable to the Company's and Group's financial statements.

- **IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.** (IFRIC 14 as adopted by the EU is effective for annual periods beginning on or after 31 December 2008, with early adoption permitted). The interpretation contains guidance on when refunds or reductions in future contributions may be regarded as available for the purposes of the asset ceiling test in IAS 19, Employee Benefits. The interpretation does not have any significant effect on the Company's and Group's financial statements.

- **Improvements to International Financial Reporting Standards** (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. None of the amendments had material effect on the Group's and Company's financial statements.

b) Change of accounting for property, plant and equipment

In order to ensure that all the companies of the LEO LT, AB Group apply the same accounting policies, in December 2008 management decided to change its accounting policy for all groups of property, plant and equipment (except the Hydro Power Plant and the Pumped Storage Power Plant, which are planned to be separated from the Company as described in Note 34): the acquisition cost accounting method was replaced with the revaluation method.

The assets' valuation was made by independent valuators as at 31 December 2008. In accordance with IAS 8, the accounting policy was changed prospectively, applying it from the earliest possible date – 31 December 2008.

The effect of the change on the statement of financial position as at 31 December 2008 and the statement of comprehensive income was as follows:

2 *Accounting policies (continued)*

2.2 Change of accounting policy (continued)

Group	Balance/amount before change of accounting policy	Effect of change of accounting policy	Balance/amount reported in financial statements as at 31 December 2008
Property, plant and equipment (excluding assets of Hydro Power Plant and Pumped Storage Power Plant)			
Land	119	167	286
Buildings	131,997	60,924	192,921
Structures and machinery	1,649,081	533,453	2,182,534
Motor 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, net of deferred tax	-	492,723	492,723
Net result for 2008 (impairment effect, 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/amount before change of accounting policy	Effect of change of accounting policy	Balance/amount reported in financial statements as at 31 December 2008
Property, plant and equipment (excluding assets of Hydro Power Plant and Pumped Storage Power Plant)			
Land	119	167	286
Buildings	101,303	54,956	156,259
Structures and machinery	1,644,274	531,646	2,175,920
Motor 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, net of deferred tax	-	483,230	483,230
Net result for 2008 (impairment effect, net of deferred tax)	55,951	(8,974)	46,977
Non-current liabilities:			
Deferred income tax liability	263,179	118,564	381,743

c) ***Change of accounting for expenses for public service obligation services:***

In 2008 interim financial statements the expenses for public service obligation services (Note 2.22) were accrued equally every month during the year. In 2009 the principle for monthly accruing expenses for public service obligation services was changed. Since the expenses for public service obligation services are incurred when electricity is purchased, the management considered that it is more accurate accruing monthly expenses for public service obligation services during the year based on actual quantity of electricity purchased. This change will have no impact to the annual financial statements. The effect of the change on the statement of comprehensive income for the period ended 30 September 2008 was as follows:

	Amount before change of accounting policy	Effect of change of accounting policy	Amount reported in financial statements as at 30 September 2008
Group			
Purchase of electricity or related services	(855,312)	20,733	(834,579)
Deferred tax income (expenses)	5,527	(3,110)	2,417
Net profit (loss)	69,051	17,621	86,672
Company			
Purchase of electricity or related services	(855,312)	20,733	(834,579)
Deferred tax income (expenses)	5,544	(3,110)	2,434
Net profit (loss)	69,799	17,623	87,422

2. *Accounting policies (continued)*

2.3 Standards, interpretations and amendments not yet effective and not early adopted by the Group and the Company

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

- ***IAS 27, Consolidated and Separate Financial Statements*** (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Company and Group do not expect the amended standard to have a material effect on its financial statements.

- ***IFRS 3, Business Combinations*** (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group and Company is currently assessing the impact of the amended standard on its financial statements.

- **IFRIC 12, Service Concession Arrangements** (IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009, with early adoption permitted).The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements. Application of IFRIC 12 will not have any impact on the Company's and Group's financial statements because it is not subject to any service concession arrangements.

- **IFRIC 15, Agreements for the Construction of Real Estate** (effective for annual periods beginning on or after 1 January 2009; not yet adopted by the EU). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's and Company's operations because it does not have any agreements for the construction of real estate.

- ***IFRIC 16, Hedges of a Net Investment in a Foreign Operation*** (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 September 2009, with early adoption permitted). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group and Company do not apply hedge accounting.

- ***Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement*** (effective with retrospective application for annual periods beginning on or after 1 July 2009; not yet adopted by the EU). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's and Company's financial statements as hedge accounting is not applied.

- ***IFRIC 17, Distribution of Non-Cash Assets to Owners*** (effective for annual periods beginning on or after 1 July 2009; not yet adopted by the EU). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. The Group and Company is currently assessing the impact of the new interpretation on its financial statements.

2. *Accounting policies (continued)*

2.3 Standards, interpretations and amendments not yet effective and not early adopted by the Group and the Company
(continued)

- ***IFRS 1, First-time Adoption of International Financial Reporting Standards*** (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; not yet adopted by the EU). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group and Company concluded that the revised standard does not have any effect on its financial statements.

- ***IFRIC 18, Transfers of Assets from Customers*** (effective for annual periods beginning on or after 1 July 2009; not yet adopted by the EU). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Group and Company is currently assessing the impact of the new interpretation on its financial statements.

- ***Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures*** (effective for annual periods beginning on or after 1 January 2009; not yet adopted by the EU). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group and Company is currently assessing the impact of the amendment on disclosures in its financial statements.

- ***Embedded Derivatives - Amendments to IFRIC 9 and IAS 39*** (effective for annual periods ending on or after 30 September 2009; not yet adopted by the EU). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. This amendment is not relevant to the Company and Group.

- ***Improvements to International Financial Reporting Standards*** (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group and Company is currently assessing the impact of the amendments on its financial statements.

- ***Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment*** (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group and Company is currently assessing the impact of the amendments on its financial statements.

2 *Accounting policies (continued)*

2.4 Consolidation principles

The consolidated interim financial statements of the Group include Lietuvos Energija AB and its subsidiaries. The interim financial statements of the subsidiaries are prepared for the same reporting periods, 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 interest in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interest consists of the amount of the interest 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.

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 Investments in subsidiaries (the Company)

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

2.7 Investments 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 venturers have a contractual arrangement that establishes joint control over the economic activities of the entity.

In the parent company's statement of financial position investments in associates and joint ventures are stated at cost less impairment, where the investment's carrying amount in the parent's statement of financial position exceeds its estimated recoverable amount.

In the consolidated financial statements of the Group results of activities of associates 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 statement of financial position 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.

2. *Accounting policies (continued)*

2.7 Investments in associates and joint ventures (continued)

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 statement of financial position. 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 with the useful life over one year is classified as property, plant and equipment.

As described in Note 2.2, since 31 December 2008 the Group has changed the accounting policy 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.

With effect from 31 December 2008, property, plant and equipment except for the Hydro Power Plant and the 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 against revaluation reserve (Note 2.2) and decreases are recognised in the statement of comprehensive income. Increases in the carrying amount arising on the subsequent revaluation of property, plant and equipment are credited against revaluation reserve, whereas decreases in the carrying amount that offset previous increases of the same asset are charged against revaluation reserve; all other decreases are charged to the statement of comprehensive income. Revaluation increases in property plant and equipment value that offset previous decreases are taken to the statement of comprehensive income. 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 statement of comprehensive income 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 non-current intangible assets under construction. The 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).

2 *Accounting policies (continued)*

2.8 Property, plant and equipment and intangible assets (continued)

Depreciation and amortisation

Depreciation (amortisation) of property, plant and equipment and intangible 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/amortisation 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. On 31 December 2008 the residual useful lives were reviewed and adjusted accordingly for all revaluated property, plant and equipment. Estimated useful lives of property, plant and equipment and intangible assets are as follows:

Property, plant and equipment and intangible assets	**Useful lives (in years)**
Buildings	20 - 75
Structures, machinery and equipment:	
- electricity and communication facilities	20 - 25
- electricity equipment	15 - 35
- other equipment	5 - 20
Power plants' assets:	
- hydrotechnical waterway structures and equipment	75
- pressure pipelines	50
- hydrotechnical turbines	25 - 40
- other equipment	8 - 15
Motor 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 newly acquired 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

Property, plant and equipment acquired under finance lease are depreciated over their estimated 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 proceeds from sale and the carrying value of the disposed asset and is recognised in the statement of comprehensive income.

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 repairs and maintenance costs are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

2 *Accounting policies (continued)*

2.9 Impairment of property, plant and equipment and intangible assets

At each reporting date, the Group and the Company review the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indications 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 estimate 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 of the Group and the Company 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 reporting date, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using 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 decrease of revaluation reserve.

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 increase 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 Non-current assets held for sale

Non-current assets are classified as assets held for sales when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell of their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.12 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 granted 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 are not carried 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, loans and investments in securities and are classified into two categories: held-to-maturity investments and loans granted and receivables

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

2 *Accounting policies (continued)*

2.12 Financial assets (continued)

Held-to-maturity financial assets.

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 statement of comprehensive income when the investments are impaired, derecognised or amortised.

Loans and receivables

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 financial 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 the statement of comprehensive income when the loans and receivables are derecognised, impaired or amortised.

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 financial assets 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 bankruptcy 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 statement of comprehensive income. 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 *Accounting policies (continued)*

2.13 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 using the first-in, first-out (FIFO) method. Net realisable value is the selling price, less the estimated costs of completion, marketing and selling expenses.

2.14 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 the statement of financial position as current borrowings.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits in settlement bank accounts, and other short-term highly liquid investments with original maturity up to 3 months.

2.15 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 as financial liabilities or equity based on the content of the contractual arrangement.

Equity instruments

Equity instrument is any contract that evidences an interest in the assets of the Group and the Company after deducting all of its liabilities. Equity instruments are recorded at the value of the income received net of direct issue costs.

Financial liabilities

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 obligations

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 a financing agreement concluded 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 statement of comprehensive income.

2.16 Foreign currency

Foreign currency transactions are accounted for at the exchange rates as of transaction date as established by the Bank of Lithuania, which approximates market rates. Monetary assets and liabilities are translated to Litas at exchange rate 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 statement of comprehensive income of the reporting period.

2 *Accounting policies (continued)*

2.16 Foreign currency (continued)

Starting from 2 February 2002, the 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:

At 30 September 2009			At 31 December 2008		
1 LVL	=	4.8823 LTL	1 LVL	=	4.8872 LTL
100 RUB	=	7.8446 LTL	100 RUB	=	8.3337 LTL
10 SEK	=	3.3882 LTL	10 SEK	=	3.1505 LTL
1 USD	=	2.3601 LTL	1 USD	=	2.4507 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 and financial position of each Group company are presented in Litas, which is the 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 items measured at fair value and denominated in foreign currency are translated using the exchange rate as of the date the fair value was determined. Non-monetary items 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 financial statements using the rate of exchange as of the balance sheet date. Income and expenses (including comparative figures) are translated into 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 under foreign currency translation reserve in equity. These changes in foreign exchange rates are recognised in the statement of comprehensive income for the period when the foreign subsidiary is disposed.

2.17 Grants

Asset-related grants

Government and the European Union grants and third party compensations 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 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.

2.18 Provisions

Provisions are recognised when the Group/Company has a legal obligation or irrevocable commitment 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 statement of comprehensive income, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective 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 finance costs.

Provisions 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 *Accounting policies (continued)*

2.19 Employee benefits

(a) Social security contributions

The Company and the Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

(b) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company and the Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Bonus plans

The Company and the Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.20 Accounting for 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.

<u>The Group and the Company as a lessor</u>

Operating lease income is recognised on a straight-line basis over the lease term.

<u>The Group and the Company as a lessee</u>

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 finance lease liability is recorded in the statement of financial position. 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 statement of comprehensive income.

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

2.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Board of directors that make strategic decisions.

2.22 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with a transaction will flow to the Group/Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, returns of goods and discounts. The following specific recognition criteria must also be met before revenue is recognised:

2 *Accounting policies (continued)*

2.22 Revenue and expense recognition (continued)

Revenue from sales of electricity

Revenue from electricity acquired at an auction, electricity export 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 after the service is rendered.

Tariff regulation

Tariffs for the 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 the 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 capacity reserves are not regulated except the cases when the producer or supplier holds more than 25 per cent of the market. In latter case, the tariff setting is supervised by the Commission.

Tariffs for imported and exported electricity are not regulated.

Under the PSO service arrangements, the Company and Group both earns revenue and incurs expenses. Following the regulations, PSO service funds are the cost paid to the suppliers of electricity under public service obligations scheme (based on approved annual electricity quantities and prices). These costs are then recharged at tariff regulated by the Commission to the users of the electricity and operators of the supply network. If at the end of the calendar year funds collected by the Company from the users of the electricity and operators of the supply networks for public service obligations related services exceed or were less than the actual payments for PSO to the suppliers, the difference needs to be taken into account by the transmission system operator when setting the tariff for PSO services for the next year. The respective regulatory assets or liabilities are not recorded in the financial statements.

Under capacity reservation agreements, the Company and Group purchases capacity reserve service from suppliers of electricity and then recharges the service at tarrif regulated by the Commission to the users of the electricity and operators of the supply network.

Connection of new users

Payments received for the connection of the new users initially are recognised as deferred income 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 acquisition cost of non-current tangible assets 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 statement of comprehensive income 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 recognised by the accruals method considering the outstanding amount and the applicable interest rate. Received interest is recorded in the cash flow statement as cash flows from operations.

Dividend income is recognised after the shareholders' rights to receive payment have been established. Received dividends are recorded in the cash flow statement as the cash flows from investments. 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 and the Company, as well as related to the rest homes owned by the Group and the Company and the sales and lease of the non-current assets are accounted as other operating income and expenses.

Recognition of expenses

Expenses are recognised in the statement of comprehensive income as incurred by the accrual method.

2 *Accounting policies (continued)*

2.23 Financing expenses

Financing expenses are recognised in the statement of comprehensive income as incurred by the accrual method.

2.24 Income tax

Income tax expense consists of the current year income tax and deferred tax expense.

Income tax

The current year income tax charge is based on taxable pre-tax profit for the year as modified by the items of income or expenses that are not subject to tax or deductable Tax rates used to compute income tax expense are those applicable as of the date of the financial statements. In 2009, income tax at a rate of 20 per cent is applicable in Lithuania (2008 – 15 per cent tax rate).

Deferred income tax

Deferred income tax is calculated using the balance sheet liability method. Deferred tax assets and deferred tax liability are recognised for future tax purposes to reflect 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 to which 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 taxable profit nor financial profit.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available for the Group and the Company to realise all or part of deferred tax assets. Deferred 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 tax assets and liabilities are offset when they are related to profit taxes levied by the same tax authority and when there is a legally enforceable right to set off current tax assets against current tax liabilities.

Income tax and deferred tax for the accounting period

Income tax and deferred income tax are charged or credited to profit or loss, except when they 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 the 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 remained at acquisition cost (or an amount based on acquisition cost), revaluation gave rise to temporary differences associated with the asset and deferred tax liability has been accounted for. If, after transition to IFRS, 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 the effect of remeasurement directly under retained earnings in the statement of financial position.

2.25 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. Where the number of shares changes without causing a change in the economic 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.

As at 30 September 2009 and in 2008, the weighted average number of shares, based on which the earnings per share are calculated was 689,515,435. As at 30 September 2009 and 31 December 2008 as well as during the periods ending at these dates, the Company had no dilutive options outstanding, therefore, basic and diluted earnings per share do not differ.

2 Accounting policies (continued)

2.26 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.

2.27 Post-balance sheet 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 disclosed in the financial statements. Post-balance-sheet events that are not adjusting events are disclosed in the notes when material.

2.28 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.

2.29 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.

2.30 Comparative figures

When preparing the interim financial statements, in the Group's and the Company's statements of financial position LTL 21,244 thousand prepayments for property, plant and equipment were reclassified from property plant and equipment to prepayments for property, plant and equipment to conform the presentation of the comparative information with the interim financial statements as of 30 September 2009.

3 Significant accounting estimates and judgments

The preparation of interim financial statements according to International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. The areas where estimates are significant to these interim financial statements include 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 2.12, 7, 10 and 11), percentage of completion evaluation for repair service contracts (Notes 2.22 and 28), evaluation of provisions (Notes 2.18 and 21), and disclosure of contingent liabilities (Note 34). Future events may cause the assumptions used in arriving at the estimates to change. The effect of such changes in the estimates will be recorded in the interim financial statements when determined.

<u>Recent volatility in global financial markets.</u>

The ongoing global liquidity crisis which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against. Management is unable to reliably estimate the effects on the Group's and Company's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's and Company's business in the current circumstances.

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

In assessing the remaining useful life of property, plant and equipment management takes account of the conclusions by the employees responsible for technical maintenance of assets.

3 Significant accounting estimates and judgments (continued)

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 at 31 December 2008 was determined by independent asset valuators who used a method of comparative prices 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.

Management has updated the carrying value of property, plant and equipment measured in accordance with the revaluation model as at 30 September 2009. As at 30 September 2009 the carrying value of property, plant and equipment was decreased using the construction cost indexes announced by the Statistics Department of the Republic of Lithuania for the relative groups of property, plant and equipment (note 5). The Group and the Company for buildings group applied 9,85% statistical index and for all other groups of property, plant and equipment - 8.02% index. No independent valuations were performed as at 30 September 2009. As at 30 December 2009 the Group and Company plans to fully update the valuation of property, plant and equipment.

Impairment of property, plant and equipment

The Group and the Company makes an assessment, at least annually, whether there are any indicators that the book value of property, plant and equipment has been impaired. 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 at 31 December 2008 there were no indications that property, plant and equipment are impaired, except for those of the subsidiary Kauno Energetikos Remontas UAB, which incurred losses and significant decline in the volume of operations. The recoverable value of non-current assets of Kauno Energetikos Remontas UAB was determined by management by estimating the probable realisable value of property plant and equipment as at 31 December 2008 and the respective impairment charge of LTL 9,320 thousand was recorded in the Group's statement of comprehensive income. For the contingency in respect of determination of the value of property, plant and equipment used in the licensed activities as at 30 September 2009 see Note 34.

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

Group/Company management considers that 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 and described in Note 34, does not meet the classification criteria's defined in IFRS 5 „Non-current assets held for sale and discontinued operations", as at the date of these interim financial statements significant uncertainty exists as to the definition (and the value) of the liabilities to be allocated to the Power Plants and the date when the transfer will take place.

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 at 31 December 2008 based on the judgement of management, except for the investment in subsidiary Kauno Energetikos Remontas UAB, which incurred losses and significant decline in the volume of operations. The recoverable amount of this investment was estimated by the Company based on the expected net assets realisable value considering each balance sheet item separately. The estimated realisable values vary from 75% to 100% from the respective net assets items carrying amounts. No observable market data was used in this estimate. No additional impairment of investments in subsidiaries was accounted for as at 30 September 2009.

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

As at the date of these interim financial statements, there was no significant risk that the book value of assets and liabilities will be subject to important corrections in the next accounting year due to changes in management's assumptions and estimates, 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 34, are changed, and (b) the adjustments which might be needed if the estimates of management of the fair value of non-current tangible assets of Kauno Energetikos Remontas UAB, as described in paragraph "Impairment of property, plant and equipment" above, are changed and (c) the adjustments which might be needed in respect of the uncertainty arising from contingency in respect of determination of the value of property, plant and equipment used in the licensed activities as at 30 September 2009, as decribed in Note 34.

4 *Intangible assets*

The structure of the Group's intangible assets as at 30 September 2009 and 31 December 2008 is as follows:

Group	Patents and licences	Software	Other intangible assets	Total
At 31 December 2007				
Acquisition cost	2,337	17,634	36	20,007
Accumulated amortisation	(1,714)	(13,173)	(15)	(14,902)
Net book value at 31 December 2007	**623**	**4,461**	**21**	**5,105**
Period ended 30 September 2008				
Opening net book amount	623	4,461	21	5,105
Additions	-	302	-	302
Amortisation charge	(383)	(1,455)	(6)	(1,844)
Net book value at 30 September 2008	**240**	**3,308**	**15**	**3,563**
At 30 September 2008				
Acquisition cost	2,337	17,936	36	20,309
Accumulated amortisation	(2,097)	(14,628)	(21)	(16,746)
Net book value at 30 September 2008	**240**	**3,308**	**15**	**3,563**
At 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 at 31 December 2008	**136**	**2,998**	**15**	**3,149**
Period ended 30 September 2009				
Opening net book amount	136	2,998	15	3,149
Additions	-	660	-	660
Amortisation charge	(123)	(1,122)	(6)	(1,251)
Net book value at 30 September 2009	**13**	**2,536**	**9**	**2,558**
At 30 September 2009				
Acquisition cost	2,358	18,760	36	21,154
Accumulated amortisation	(2,345)	(16,119)	(26)	(18,490)
Accumulated impairment	-	(105)	-	(105)
Net book value at 30 September 2009	**13**	**2,536**	**10**	**2,559**

The structure of the Company's intangible assets as at 30 September 2009 and 31 December 2008 is as follows:

Company	Patents and licences	Software	Other intangible assets	Total
At 31 December 2007				
Acquisition cost	2,277	17,501	-	19,778
Accumulated amortisation	(1,667)	(13,108)	-	(14,775)
Net book value at 31 December 2007	**610**	**4,393**	**-**	**5,003**
Period ended 30 September 2008				
Opening net book amount	610	4,393	-	5,003
Additions	-	283	-	283
Amortisation charge	(370)	(1,432)	-	(1,802)
Net book value at 30 September 2008	**240**	**3,244**	**-**	**3,484**
At 30 September 2008				
Acquisition cost	2,277	17,784	-	20,061
Accumulated amortisation	(2,037)	(14,540)	-	(16,577)
Net book value at 30 September 2008	**240**	**3,244**	**-**	**3,484**
At 31 December 2008				
Acquisition cost	2,277	17,941	-	20,218
Accumulated amortisation	(2,159)	(14,915)	-	(17,074)
Net book value at 31 December 2008	**118**	**3,026**	**-**	**3,144**
Period ended 30 September 2009				
Opening net book amount	118	3,026	-	3,144
Additions	-	590	-	590
Amortisation charge	(118)	(1,102)	-	(1,220)
Net book value at 30 September 2009	**-**	**2,514**	**-**	**2,514**
Period ended 30 September 2009				
Acquisition cost	2,273	18,531	-	20,808
Accumulated amortisation	(2,273)	(16,017)	-	(18,294)
Net book value at 30 September 2009	**-**	**2,514**	**-**	**2,514**

4 *Intangible assets (continued)*

Acquisition cost of the Group's and the Company's intangible assets, which were fully amortised but still in use as at 30 September 2009 and 31 December 2008, is as follows:

Category of intangible assets	Group at 30 September 2009	Company at 30 September 2009	Group at 31 December 2008	Company at 31 December 2008
Patents and licenses	2,286	2,273	817	817
Computer software	12,055	11,883	12,628	12,583
Total	**14,341**	**14,156**	**13,445**	**13,400**

5 *Property, plant and equipment*

The structure of the Group's property, plant and equipment as at 30 September 2009 and 31 December 2008 is as follows:

Group	Land	Buildings	Structures and machinery	Hydro Power Plant and Pumped Storage Power Plant	Motor vehicles	Other PP&E	Construction in progress	Total
At 31 December 2007								
Acquisition cost	84	153,967	2,110,616	592,794	24,893	138,693	122,232	3,143,279
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**	**122,232**	**2,540,972**
Period ended 30 September 2008								
Opening net book amount	84	132,993	1,690,129	519,559	10,097	65,878	122,232	2,540,972
Additions	35	610	2,902	45,410	1,417	3,915	60,466	114,755
Write-offs	-	(8)	(1,123)	(13)	(122)	(3)	-	(1,269)
Reclassification	-	749	36,309	-	-	5,721	(42,779)	-
Depreciation charge	-	(2,511)	(70,613)	(14,166)	(2,289)	(12,864)	-	(102,443)
Net book value	**119**	**131,833**	**1,657,604**	**550,790**	**9,103**	**62,647**	**139,919**	**2,552,015**
At 30 September 2008								
Acquisition cost	119	155,318	2,148,704	638,191	26,188	148,326	139,919	3,256,765
Accumulated depreciation	-	(23,340)	(489,865)	(87,032)	(17,085)	(84,951)	-	(702,273)
Accumulated impairment	-	(145)	(1,235)	(369)	-	(728)	-	(2,477)
Net book value	**119**	**131,833**	**1,657,604**	**550,790**	**9,103**	**62,647**	**139,919**	**2,552,015**

5 *Property, plant and equipment (continued)*

Group	Land	Buildings	Structures and machinery	Hydro Power Plant and Pumped Storage Power Plant	Motor vehicles	Other PP&E	Construction in progress	Total
At 31 December 2008								
Cost or revaluated amount	286	199,607	2,186,547	648,893	9,596	63,235	146,333	3,254,497
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**	**146,333**	**3,149,671**
Period ended 30 September 2009								
Opening net book amount	286	192,921	2,182,534	555,625	9,596	62,507	146,333	3,149,802
Additions	-	75	873	23,811	102	8,788	31,552	65,201
Revaluation	-	(13,689)	(160,209)	-	-	-	(555)	(174,453)
Disposals	-	-	-	-	-	-	-	-
Write-offs	-	(2,208)	(650)	(308)	-	(14)	-	(3,180)
Reversal of impairment	-	2,205	-	369	-	-	-	2,574
Transfer to inventory	-	(4,619)	-	-	-	(1,258)	-	(5,877)
Reclassification	-	6,069	131,260	-	-	14,611	(151,940)	-
Reclassification to investment property	-	(22,126)	-	-	-	-	-	(22,126)
Depreciation charge	-	(3,689)	(96,672)	(16,788)	(2,192)	(14,365)	-	(133,706)
Net book value	**286**	**154,939**	**2,057,136**	**562,709**	**7,506**	**70,269**	**25,390**	**2,878,235**
At 30 September 2009								
Cost or revaluated amount	286	165,314	2,157,821	672,396	9,698	85,362	25,390	3,116,267
Accumulated depreciation	-	(3,689)	(96,672)	(108,918)	(2,192)	(14,365)	-	(225,836)
Accumulated impairment	-	(6,686)	(4,013)	(769)	-	(728)	-	(12,196)
Net book value	**286**	**154,939**	**2,057,136**	**562,709**	**7,506**	**70,269**	**25,390**	**2,878,235**

As described in Note 3, the plant and equipment of the Group, except Hydro Power Plant and Pumped Storage Power Plant assets, has been revalued as of 30 September 2009. The total effect of revaluation amounting to LTL 174,453 thousand was accounted as follows: LTL 91,921 thousand decrease in value was accounted in revaluation reserve net of LTL 22,980 thousand deferred tax, and LTL 59,552 thousand decrease in value was accounted as loss on property, plant and equipment revaluation in the consolidated statement of comprehensive income.

As at 30 June 2009 the Group reclassified from buildings and other PP&E groups assets amounting to LTL 5,877 thousand, net of impairment charge of LTL 2,205 thousand, to inventories (Note 9).

The structure of the Company's property, plant and equipment as at 30 September 2009 and 31 December 2008 is as follows:

Company	Land	Buildings	Struc-tures and machi-nery	Hydro Power Plant and Pumped Storage Power Plant	Motor vehicles	Other PP&E	Constru-ction in progress	Total
As 31 December 2007								
Acquisition cost	84	127,324	2,101,368	592,794	22,508	137,912	122,925	3,104,915
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**	**122,925**	**2,509,295**

5 *Property, plant and equipment (continued)*

Company	Land	Buildings	Struc-tures and machi-nery	Hydro Power Plant and Pumped Storage Power Plant	Motor vehicles	Other PP&E	Constru-ction in progress	Total
Period ended 30 September 2008								
Opening net book amount	84	108,342	1,684,284	519,559	8,591	65,510	122,925	2,509,295
Additions	35	-	1,741	45,410	1,356	3,864	60,466	112,872
Write-offs	-	-	(886)	(13)	(35)	(3)	-	(937)
Reclassification	-	749	36,309	-	-	5,721	(42,779)	-
Depreciation charge	-	(2,076)	(69,960)	(14,166)	(2,125)	(12,796)	-	(101,123)
Net book value	**119**	**107,015**	**1,651,488**	**550,790**	**7,787**	**62,296**	**140,612**	**2,520,107**
At 30 September 2008								
Acquisition cost	119	128,073	2,138,532	638,191	23,829	147,494	140,612	3,216,850
Accumulated depreciation	-	(20,913)	(485,820)	(87,032)	(16,042)	(84,470)	-	(694,277)
Accumulated impairment	-	(145)	(1,224)	(369)	-	(728)	-	(2,466)
Net book value	**119**	**107,015**	**1,651,488**	**550,790**	**7,787**	**62,296**	**140,612**	**2,520,107**
At 31 December 2008								
Cost or revaluated amount	286	156,404	2,177,144	648,893	8,343	62,646	146,339	3,200,055
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**	**146,339**	**3,104,690**
Period ended 30 September 2009								
Opening net book amount	286	156,259	2,175,920	555,625	8,343	61,918	146,339	3,104,690
Additions	-	-	762	23,811	61	8,740	31,823	65,197
Disposals	-	-	-	-	-	-	-	-
Write-offs	-	-	(627)	(331)	-	(11)	-	(969)
Reversal of impairment	-	-	-	369	-	-	-	369
Revaluation	-	(13,583)	(160,209)	-	-	-	(555)	(174,347)
Reclassification	-	6,069	131,260	-	-	14,611	(151,940)	-
Transfer to investment property	-	(22,126)	-	-	-	-	-	(22,126)
Depreciation charge	-	(3,113)	(95,778)	(16,788)	(1,953)	(14,301)	-	(131,933)
Net book value	**286**	**123,506**	**2,051,328**	**562,686**	**6,451**	**70,957**	**25,667**	**2,840,881**
At 30 September 2009								
Cost or revaluated amount	286	126,764	2,148,330	672,373	8,404	85,986	25,667	3,067,810
Accumulated depreciation	-	(3,113)	(95,778)	(108,918)	(1,953)	(14,301)	-	(224,063)
Accumulated impairment	-	(145)	(1,224)	(769)	-	(728)	-	(2,866)
Net book value	**286**	**123,506**	**2,051,328**	**562,686**	**6,451**	**70,957**	**25,667**	**2,840,881**

As described in Note 3, the property, plant and equipment of the Company, except Hydro Power Plant and Pumped Storage Power Plant assets, has been revalued as of 30 September 2009. The total effect of revaluation amounting to LTL 174,347 thousand was accounted as follows: LTL 91,921 thousand decrease in value was accounted in revaluation reserve net of LTL 22,980 thousand deferred tax, and LTL 59,446 thousand decrease in value was accounted as loss on property, plant and equipment revaluation in the statement of comprehensive income

The key investment projects completed by the Company in the nine months of 2009 are as follows:

Project	Value, LTL thousand
Reconstruction of 330/110/10kV Vilnius transformer substation	86,747
Renovation of electricity transmission line Kaunas – Jonava – Kėdainiai - Panevėžys	18,281
Reconstruction of 110/10kV Centre transformer substation	7,876
Reconstruction of 110/10kV Noreikiškiai transformer substation	5,240
Replacement of 110kV OL	4,404
Construction of 110kV switchgear at 110/10kV Šventininkai transformer substation	4,257
Implementation of DWDM network	4,226

5 Property, plant and equipment (continued)

Net book amounts of property, plant and equipment acquired by the Group under financial lease contracts as at 30 September 2009 and 31 December 2008 are as follows:

Category of PP&E	**At 30 September 2009**	**At 31 December 2008**
Plant and machinery	3,754	4,301
Motor vehicles	94	100
Total	**3,848**	**4,401**

The Group/Company has significant contractual obligations to purchase non-current tangible assets, which have to be fulfilled in later periods. The Group/Company continues an investment project on the modernisation of Kaunas Hydro Power Plant valued at LTL 125 million. LTL 30 million from this amount is financed by the European Regional Development Fund and from the national co-financing. Alstom Power Sweden AB is the general contractor of the project. As at 30 September 2009, construction works for LTL 100 million have been completed under the general contract. As at 30 September 2009 the Group's/Company's liability under this project amounts to LTL 26 million (as at 31 December 2008 – LTL 51 million).The Group's/Company's other purchase commitments related to non-current tangible assets as at 30 September 2009 and 31 December 2008 comprise LTL 24 million and LTL 9 million respectively.

As described in Note 34, according to the agreement signed by the shareholders of the parent company LEO LT, AB, Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant have to be transferred to the State by 27 May 2010.

6 Investment property

	Group	**Company**
At 31 December 2007		
Acquisition cost	-	6,054
Accumulated depreciation	-	(291)
Net book amount	**-**	**5,763**
Period ended 30 September 2008		
Opening net book amount	-	5,763
Depreciation charge	-	(55)
Net book amount at 30 September 2008	**-**	**5,708**
At 30 September 2008		
Acquisition cost	-	6,054
Accumulated depreciation	-	(346)
Net book amount at 30 September 2008	**-**	**5,708**
At 31 December 2008		
Acquisition cost	4,377	22,699
Accumulated depreciation	(458)	(920)
Net book amount at 31 December 2008	**3,919**	**21,779**
Period ended 30 September 2009		
Opening net book amount	3,919	21,779
Reclassifications from property, plant and equipment	22,126	22,126
Depreciation charge	(216)	(390)
Net book amount at 30 September 2009	**25,829**	**43,515**
At 30 September 2009		
Acquisition cost	26,503	44,825
Accumulated depreciation	(674)	(1,310)
Net book amount at 30 September 2009	**25,829**	**43,515**

The fair value of the investment property of the Group and the Company as at 31 December 2008 as determined by the independent valuators amounted to LTL 9,508 thousand and LTL 28,299 thousand respectively. As estimated by the Company, as at 30 September 2009 these values amount to LTL 28,229 thousand and LTL 45,004 thousand respectively.

Income from lease of investment property of the Group and the Company in the nine months period of 2009 amounted to LTL 691 thousand and LTL 1,424 thousand respectively. Rental income of the Company in the nine months period of 2008 amounted to LTL 561, thousand while the Group did not earn income from lease of investment property. On 30 September 2009 the average rent period of all lease agreements according to which rental income is earned is 2 years.

7 *Investments*

As at 30 September 2009 and 31 December 2008, the Company had direct control over these subsidiaries:

Subsidiary 30 September 2009	Acquisition cost	Impairment	Carrying amount
Kauno Energetikos Remontas UAB	31,341	(15,441)	15,900
Kruonio Investicijos UAB	2,361	(607)	1,754
Energetikos Pajėgos UAB	414	-	414
Total	**34,116**	**(16,048)**	**18,068**

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

The Company owns 100 per cent of shares of these companies. The Company had indirect control over Gotlitas UAB and until 2 June 2009 Kaliningradski Energoremont OOO, i.e. through Kauno Energetikos Remontas UAB (Note 1).

The structure of the Company's investments in the associates and the joint venture as at 30 September 2009 and 31 December 2008 is as follows:

Company 30 September 2009	Acquisition cost	% interest held	Impairment	Carrying amount
Geoterma UAB	7,396	23.44	(3,949)	3,447
Nordic Energy Link AS	21,175	25.00	-	21,176
LitPol Link Sp.z.o.o	1,020	50.00	(1,020)	-
Total	**29,591**		**(4,969)**	**24,621**

Company 31 December 2008	Acquisition cost	% interest held	Impairment	Carrying amount
Geoterma UAB	7,396	23.44	(4,104)	3,292
Nordic Energy Link AS	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**

The structure of the Group's investments in the associates and the joint venture as at 30 September 2009 and 31 December 2008 is as follows:

Group 30 September 2009	Acquisition cost	% interest held	Impairment and equity method	Carrying amount
Geoterma UAB	7,396	23.44	(3,949)	3,447
Nordic Energy Link AS	21,175	25.00	848	22,023
Enmašas UAB	20	33.33	71	91
LitPol Link Sp.z.o.o	1,020	50.00	(1,020)	-
Total	**29,611**		**(4,050)**	**25,561**

7 *Investments (continued)*

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

Financial position as at 30 September 2009 and 31 December 2008 and operating results for the nine months period of 2009 and 2008 of the associates and the joint venture are as follows (unaudited):

At 30 September 2009	Assets	Liabilities	Sales revenue	Net profit (loss)
Geoterma UAB	58,216	42,324	11,799	2,351
Nordic Energy Link AS	333,981	250,310	44,220	4,367
UAB "Emnašas" *				
LitPol Link Sp.z.o.o *				

At 30 September 2008	Assets at 31 December 2008	Liabilities at 31 December 2008	Sales revenue	Net profit (loss)
Geoterma UAB	55,460	41,413	-	(4,435)
Nordic Energy Link AS	332,499	253,195	57,325	1,893
Enmašas UAB	285	11	53	(30)
LitPol Link Sp.z.o.o	885	299	-	(210)

* - on the date of approving the interim Financial Statements, the financial statements of those companies were not available.

Movements of investments in the associates and the joint venture for the periods ended 30 September 2009 and 30 September 2008 were as follows:

	Group 30 September 2009	Company 30 September 2009	Group 30 September 2008	Company 30 September 2008
Carrying amount at 1 January	**25,699**	**24,759**	**21,041**	**20,625**
Increase in investments	-	-	1,662	1,642
Impairment of investments	(138)	(138)	1,364	1,364
Share of financial result (loss) of associates and joint ventures	-	-	79	-
Carrying amount at the end of the period	**25,561**	**24,621**	**24,146**	**23,631**

The impairment charge was included in finance costs in the statement of comprehensive income.

8 *Non-current receivables*

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

	Group 30 September 2009	**Company 30 September 2009**	**Group 31 December 2008**	**Company 31 December 2008**
Other accounts receivable	583	1,381	651	651
Total	**583**	**1,381**	**651**	**651**
Less: current portion (Note 11)	(23)	(23)	(27)	(27)
Carrying amount	**560**	**1,358**	**624**	**624**

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

9 *Inventories*

Inventories of the Group and the Company are shown in the table below:

	Group 30 September 2009	**Company 30 September 2009**	**Group 31 December 2008**	**Company 31 December 2008**
Materials and consumables, production in progress and finished goods at acquisition (production) cost	7,578	4,605	9,923	5,065
Goods for resale at acquisition cost	8,366	-	535	319
Non-current assets held for sale	315	315	-	-
Less: write-down to net realisable value	(6,768)	(973)	(4,448)	(858)
Carrying amount	**9,491**	**3,947**	**6,010**	**4,526**

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as at 30 September 2009 amounted to LTL 6,947 thousand and LTL 1,997 thousand respectively (31 December 2008: LTL 6,329 thousand and LTL 1,255 thousand respectively).

Amount of inventory recognised as expense in the Group and the Company during the period ended 30 September 2009 amounted to LTL 5,550 thousand and LTL 2,948 thousand, respectively (during the period ended 31 December 2008 - LTL 9,108 thousand and LTL 3,664 thousand respectively).

As described in Note 5, as at 30 June 2009 the Group reclassified buildings and property, plant and equipment of LTL 5,877 thousand to assets held for sale. The Group management approved the plan for disposal of these assets and expects that the disposal will be completed within 1 year.

Changes in impairment of inventories in the nine months period of 2009 and in 2008 are shown in the table below:

	Group 30 September 2009	**Company 30 September 2009**	**Group 30 September 2008**	**Company 30 September 2008**
Impairment of inventories at 1 January	4,448	858	482	396
Write-down of inventories during the reporting period	2,415	210	-	-
Reversal of inventory write-down	(95)	(95)	(392)	(306)
Impairment of inventories at the end of the reporting period	**6,768**	**973**	**90**	**90**

The impairment charge was included in other operating expenses in the statement of comprehensive income.

10 Trade receivables

Trade receivables of the Group and the Company are as follows:

	Group 30 September 2009	Company 30 September 2009	Group 31 December 2008	Company 31 December 2008
Receivables for electricity sold in Lithuania	103,121	103,121	55,007	55,007
Receivables for exported electricity	17,424	17,424	19,614	19,614
Unbilled revenue from electricity-related sales	11,912	11,911	51,308	51,308
Receivables for repair and design works	7,314	-	10,353	-
VAT on unbilled revenue	2,209	2,209	9,749	9,749
Receivables for electricity transit	-	-	574	574
Total	**141,980**	**134,665**	**146,605**	**136,252**
Less: allowance for doubtful receivables	(10,911)	(10,215)	(10,313)	(9,612)
Carrying amount	**131,069**	**124,450**	**136,292**	**126,640**

The fair value of trade receivables approximates their carrying amounts.

Movements in impairment of trade receivables in the nine months period of 2009 and in 2008 were as follows:

	Group 30 September 2009	Company 30 September 2009	Group 30 September 2008	Company 30 September 2008
Carrying amount at 1 January	**10,313**	**9,612**	**9,947**	**9,612**
Recognised as doubtful receivables in the reporting period	603	603	-	-
Reversal of doubtful receivables	(5)	-	(10)	-
Carrying amount at the end of the period	**10,911**	**10,215**	**9,937**	**9,612**

The impairment charge of doubtful receivables was included in other operating expenses in the statement of comprehensive income.

As at 30 September 2009 and 31 December 2008, the majority of impaired trade receivables of the Group and the Company consisted of trade receivables from Ekranas AB (LTL 9,612 thousand) which had gone bankrupt as of the date of the interim financial statements.

Trade receivables that are overdue more than 60 days are considered as impaired. The ageing analysis of Group's and the Company's trade receivables that are not overdue and overdue, but not impaired is as follows:

	Group 30 September 2009	Company 30 September 2009	Group 31 December 2008	Company 31 December 2008
Not overdue	129,849	123,230	133,584	126,257
Overdue up to 30 days	684	684	2,465	383
Overdue from 30 to 60 days	536	536	243	-
Carrying amount	**131,069**	**124,450**	**136,292**	**126,640**

11 Other accounts receivable

Current other trade receivables of the Group and the Company are as follows:

	Group 30 September 2009	Company 30 September 2009	Group 31 December 2008	Company 31 December 2008
Receivables for IT and telecommunications services	3,497	3,497	2,805	2,830
Accrued interest receivable	2,208	2,166	126	126
Deferred VAT receivable	1,213	1,213	5,344	5,344
VAT receivable from the budget	1,142	1,118	332	-
Receivable from Visagino Atominė Elektrinė and UAB InterLinks UAB	49	49	7,413	7,413
Current portion of long-term receivables (Note 8)	23	23	27	27
Loan granted to Kauno energetikos remontas UAB	-	1,480	-	-
Other accounts receivable	5,197	3,898	5,941	5,903
Total	**13,329**	**13,444**	**21,988**	**21,643**
Less: doubtful receivables	(3,556)	(3,556)	(4,870)	(4,870)
Carrying amount at the end of the period	**9,773**	**9,888**	**17,118**	**16,773**

Movements in impairment of doubtful other receivables in the nine month period of 2009 and 2008 were as follows:

	Group 30 September 2009	Company 30 September 2009	Group 30 September 2008	Company 30 September 2008
Carrying amount at 1 January	**4,870**	**4,870**	**4,860**	**4,860**
Reversal of doubtful receivables	-	-	-	-
Write-down of doubtful receivables	(1,429)	(1,429)	-	-
Recognised as doubtful receivables in the reporting period	115	115	3	3
Carrying amount at the end of the period	**3,556**	**3,556**	**4,863**	**4,863**

The impairment charge was included in other operating expenses in the statement of comprehensive income.

Other receivables that are overdue more than 60 days are considered as impaired. The ageing analysis of Group's and the Company's other receivables that are not overdue and overdue, but not impaired, is as follows:

	Group 30 September 2009	Company 30 September 2009	Group 31 December 2008	Company 31 December 2008
Not overdue	9,027	9,142	16,989	16,644
Overdue up to 30 days	502	502	54	54
Overdue from 30 to 60 days	171	171	8	8
Overdue from 60 to 90 days	48	48	48	48
Overdue over 90 days	25	25	19	19
Carrying amount	**9,773**	**9,888**	**17,118**	**16,773**

The fair value of other current accounts receivable approximates their carrying amounts.

12 Other financial assets

Other financial assets of the Group and the Company as at 30 September 2009 include securities issued by the Lithuanian Government valued at LTL 39,705 thousand with the maturity expiring on 21 June 2010 (31 December 2008: bonds issued by the Lithuanian and Finnish Governments valued at LTL 15,994 thousand).

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

13 Term deposits

Term deposits of the Group and the Company are shown in the table below:

	Group 30 September 2009	Company 30 September 2009	Group 31 December 2008	Company 31 December 2008
Term deposit at Swedbank AB (contract currency litas), maturity – November 2009	30,000	30,000	-	-
Term deposit at the bank Snoras AB (contract currency litas), maturity – January 2010	100	-	-	-
Term deposit at Swedbank AB (contract currency litas), maturity – June 2012	60	-	-	-
Term deposit at the bank Snoras AB (contract currency litas), maturity – June 2009	-	-	200	-
Carrying amount	**30,160**	**30,000**	**200**	**-**

The carrying amounts of term deposits approximate their fair values. The interest rates on term deposits vary from 8.11 to 8.95%.

14 Cash and cash equivalents

Cash and cash equivalents of the Group and the Company are disclosed in the table below:

	Group 30 September 2009	Company 30 Setember 2009	Group 31 December 2008	Company 31 December 2008
Cash at bank and in hand	14,941	13,730	23,972	23,481
Term deposit at SEB Bankas AB (contract currency litas), maturity – October 2009	14,000	14,000	-	-
Term deposit at Nordea Bank Finland Plc Lithuania Branch (contract currency litas), maturity – October 2009	12,000	12,000	-	
Term deposit at Swedbank AB (contract currency litas), maturity – October 2009	10,000	10,000	-	-
Term deposit at Swedbank AB (contract currency litas), maturity – November 2009	10,000	10,000	-	-
Term deposit at Nordea Bank Finland Plc Lithuania Branch (contract currency litas), maturity – July 2009	-	-	360	-
Term deposit at Swedbank AB (contract currency litas), maturity – August 2009	-	-	15,000	15,000
Term deposit at SEB Bankas AB (contract currency litas), maturity – January 2009	-	-	29,000	29,000
Term deposit at Swedbank AB (contract currency litas), maturity – August 2009	-	-	-	-
Term deposit at Swedbank AB (contract currency litas), maturity – April 2009	-	-	1,701	1,701
Overnight deposit at Swedbank AB (contract currency litas)	744	744	-	-
Overnight deposit at Swedbank AB (contract currency euro)	398	398	424	424
Carrying amount	**62,083**	**60,872**	**70,457**	**69,606**

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

Original maturity of all deposits is up to three months; the weighted average of interest rate of the Group and the Company was 6.99 % as of 30 September 2009 (as at 31 December 2008 - 4.30 % and 4.31 % respectively).

As at 30 September 2009, the Company had no effective overdraft or credit limit agreements.

15 Share capital

As at 30 September 2009, 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 LTL 1 each. All the shares are fully paid. The highest share price at the Stock Exchange session in 2009 was LTL 3.06 per share, the lowest - LTL 1.29 per share. The number of shareholders as at 30 June 2009 was 5,878.

The shareholders' structure of the Company is as follows:

Shareholders	Share capital at 30 September 2009 LTL	%	Share capital at 31 December 2008 LTL	%
LEO LT, AB	664,700,833	96.40	664,700,833	96,40
State of Lithuania represented by the Ministry of the Economy	556	0.00	303,442	0,04
Other	24,814,046	3.60	24,511,160	3.56
Total	**689,515,435**	**100.00**	**689,515,435**	**100.00**

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

16 Legal reserve

Legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of at least 5 per cent of net profit are compulsory until the reserve reaches 10 per cent of the share capital.

As at 30 September 2009, the Company had fully formed a legal reserve, which accounted for 10 per cent of the share capital and amounted to LTL 68,952 thousand.

17 Other reserves

Other reserves of the Group and the Company are as follows:

Group	Reserve for share capital reduction due to transfer of fuel oil storage facilities	Reserve for invest-ments	Reserve for support, tantiemes & bonuses	Non-current asset-related reserves	Other reserves	Total
Balance at 31 December 2007	**(63,777)**	**162,744**	**1,719**	**1,293,569**	**10,531**	**1,404,786**
Reserves established	-	-	3,053	-	48,443	51,496
Reserves utilised	-	-	(1,700)	-	-	(1,700)
Balance at 30 September 2008	**(63,777)**	**162,744**	**3,072**	**1,293,569**	**58,974**	**1,454,582**
Balance at 31 December 2008	**(63,777)**	**162,744**	**3,020**	**1,293,569**	**58,974**	**1,454,530**
Reserves established	-	-		-		
Reserves utilised	-	(162,744)	(3,020)	(1,293,569)	(58,918)	(1,518,251)
Balance at 30 September 2009	**(63,777)**	**-**	**-**	**-**	**56**	**(63,721)**

Company	Reserve for share capital reduction due to transfer of fuel oil storage facilities	Reserve for invest-ments	Reserve for support, tantiemes & bonuses	Non-current asset-related reserves	Other reserves	Total
Balance at 31 December 2007	**(63,777)**	**160,637**	**1,700**	**1,293,569**	**10,531**	**1,402,660**
Reserves established	-	-	2,780	-	47,831	50,611
Reserves utilised	-	-	(1,700)	-	-	(1,700)
Balance at 30 September 2008	**(63,777)**	**160,637**	**2,780**	**1,293,569**	**58,362**	**1,451,571**
Balance at 31 December 2008	**(63,777)**	**160,637**	**2,780**	**1,293,569**	**58,362**	**1,451,571**
Reserves established	-					
Reserves utilised	-	(160,637)	(2,780)	(1,293,569)	(58,362)	(1,515,348)
Balance at 30 September 2009	**(63,777)**	**-**	**-**	**-**	**-**	**(63,777)**

17 Other reserves (continued)

The reserve for the reduction of the share capital due to the transfer of fuel oil storage facilities is the negative reserve for reducing the share capital which was established in 1999 as a result of the transfer of fuel oil storage facilities 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 on 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, the general meeting of shareholders held on 20 April 2006 decided to form a reserve related to non-current assets from retained earnings.

Based on the decision of the shareholders' meeting held on 30 April 2009 a transfer of LTL 1,515,348 thousand was made from the reserve to retained earnings.

18 Borrowings

The Group's and the Company's borrowings according to repayment terms are presented in the table below:

	Group 30 September 2009	Company 30 September 2009	Group 31 December 2008	Company 31 December 2008
Within the first year	14,309	13,811	271	-
Within the second year	-	-	13,811	13,811
Total	**14,309**	**13,811**	**14,082**	**13,811**

Non-current borrowings of the Group and the Company are shown in the table below:

Credit institution	Contractual amount of loan (in EUR thousand)	Amount of used but not repaid loan as at 30 September 2009 (in EUR thousand)	Repayment term	Amount of used but not repaid loan as at 30 September 2009	Current portion as at 31 December 2008	Amount of used but not repaid loan as at 31 Dece-mber 2008
UniCredit Bank AS, Lithuanian Branch	15,000	4,000	2010	13,811	-	13,811
Total non-current borrowings	**15,000**	**4,000**		**13,811**	**-**	**13,811**

Current borrowings of the Group as at 30 September 2009 include LTL 487 thousand overdraft used by Kauno Energetikos Remontas UAB (the Company had no current borrowings as at 30 September 2009).

As at 30 September 2009 and 31 December 2008, the Company's borrowings totalled LTL 13,811 thousand with a fixed interest rate 4.77 per cent.

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

In 2009 and 2008 the Group and the Company was in compliance with all covenants under the loan agreements.

The estimated fair value of the borrowings as of 30 September 2009 approximates to its carrying value (LTL 12,150 thousand as of 31 December 2008).

The Group and the Company have assumed the following liabilities under loan agreements:

- Under the agreement of 22 May 2002 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 at least LTL 10 million through the Company's accounts at this bank. Without a prior written bank approval the Company shall not: guarantee the obligations to its future creditors or expand guarantee facilities to present creditors. In case of substantial breach of the agreement, the Company is obliged without a written agreement not to declare and pay dividends, perform the distribution of share capital, and purchase shares. On 1 September 2007, UniCredit Bank AS, Lithuanian Branch, overtook from HVB-Bank, under a contract, all the rights and obligations acquired through HVB-Bank, Vilnius Branch.

As at 31 December 2008 the Group and Company had effective loan agreements with AB SEB bankas (EUR 15 000 thousand) and AB Swedbank (EUR 11 585 thousand), which were unused at that date.

As at 30 September 2009 the Group and the Company had no unused borrowings.

19 Financial lease liabilities

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

Group	At 30 September 2009		At 31 December 2008	
	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	393	343	728	595
Within second – fifth years	1,760	1,648	2,115	1,894
Minimum finance lease payments	**2,153**	**1,991**	**2,843**	**2,489**
Less: deferred interest	(162)	-	(354)	-
Present value of minimum finance lease payments	**1,991**	**1,991**	**2,489**	**2,489**

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 at 30 September 2009 and 31 December 2008.

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

20 Grants

The grants balance consists of grants related to the financing of assets acquisition. Movement of grants in the nine months period of 2009 and 2008 is as follows:

	Group	Company
Balance at 31 December 2007	**36,669**	**36,617**
Received during the period	11,191	11,191
Utilised during the period	(1,337)	(1,320)
Balance at 30 September 2008	**46,523**	**46,488**
Balance at 31 December 2008	**66,339**	**66,309**
Received during the period	7,704	7,705
Utilised during the period	(1,951)	(1,942)
Balance at 30 September 2009	**72,092**	**72,072**

21 Other non-current accounts payable and liabilities

	Group 30 September 2009	Company 30 September 2009	Group 31 December 2008	Company 31 December 2008
Advances received from new customers*	8,704	8,704	22,673	22,673
Provisions for pension payments and injury compensations	1,408	1,408	1,620	1,620
Liability related to guarantees for Nordic Energy Link (Note 34)	1,304	1,304	1,304	1,304
Total	**11,416**	**11,416**	**25,597**	**25,597**

* This item represents advances received for the connection of new users to the electricity networks. These advances will be reclassified to deferred revenue upon the provision of connection services. Such deferred revenue is recognised in the statement of comprehensive income over the useful life of the non-current assets developed.

Provision for pension payments represents calculated amounts to be paid according to Lithuanian legislation. Each employee is entitled to 2 months salary payment when retiring after reaching the pension age.

22 Income tax

Income tax expense as at 30 September 2009 and 30 September 2008 comprised as follows:

	Group 2009	Company 2009	Group 2008 (restated)	Company 2008 (restated)
Income tax expense components				
Current tax charge	(30,861)	(30,804)	15,242	15,083
Deferred tax expense (income)	20,249	20,334	(5,741)	(5,727)
Income tax expense (income) for the reporting period	**(10,612)**	**(10,470)**	**9,501**	**9,356**

Deferred tax of the Group and the Company comprised as follows:

	Group 30 September 2009	Company 30 September 2009	Group 31 December 2008	Company 31 December 2008
Deferred tax assets				
Effect of non-current assets measured at revalued amount and deemed cost (impairment)	250,342	249,768	245,363	244,780
Accruals	402	402	399	399
Bad debts	2,811	2,671	3,037	2,896
Impairment of property, plant and equipment	2,266	402	2,513	536
Impairment of financial assets	994	4,203	966	4,176
Vacation reserve	448	326	722	503
Impairment of intangible assets	21	-	21	-
Write down of inventories to net realisable value	443	193	890	172
Written-off capitalised interest	-	-	-	-
Total deferred tax asset before impairment of realisable value	**257,727**	**257,965**	**253,911**	**253,462**
Less: impairment of realisable value	(10,925)	(10,785)	(2,246)	(2,206)
Deferred tax asset less impairment of realisable value	**246,802**	**247,180**	**251,665**	**251,256**
Deferred tax liability				
Effect of non-current assets measured at revalued amount/deemed cost (increase in value)	(555,513)	(553,597)	(602,201)	(599,449)
Net book value of non-current assets with the tax relief (Method II) applied (excluding construction in progress)	(30,504)	(30,258)	(31,911)	(31,638)
Effect of different depreciation rates for PP&E in financial and tax accounting	(1,571)	(1,571)	(1,730)	(1,730)
Construction in progress with the tax relief (Method II) applied in 1998 - 2001, not put into operation before 30 September 2009	(3)	(3)	(3)	(3)
Effect of guarantee liability	(179)	(179)	(179)	(179)
Total deferred tax liability	**(587,770)**	**(585,608)**	**(636,024)**	**(632,999)**
Deferred tax liability, net	**(340,968)**	**(338,428)**	**(384,359)**	**(381,743)**

As at 30 September 2009, deferred tax assets and liability were calculated using a tax rate of 20 per cent (31 December 2008 - 15 per cent).

The current portion of net deferred income tax liability that will be realised during 12 months is LTL 13,987 thousand.

22 *Income tax (continued)*

Changes in temporary differences were as follows:

Group

	At 31 December 2008	Recognised in other comprehen-sive income	Recognised in profit and loss	At 30 September 2009
Effect of non-current assets measured at revalued amount/deemed cost (impairment)	1,226,820		24,893	1,251,713
Bad debts	15,183		(1,125)	14,058
Impairment of property, plant and equipment	12,565		(1,231)	11,334
Impairment of financial assets	4,831		139	4,970
Write down of inventories to net realisable value	4,448		(2,244)	2,204
Vacation reserve	3,609		(1,371)	2,238
Accruals	1,993		15	2,008
Impairment of intangible assets	105		-	105
Construction in progress with the tax relief (Method II) applied in 1998 - 2001, not put into operation before 30 September 2009	(16)		-	(16)
Effect of guarantee liability	(893)		-	(893)
Effect of different depreciation rates for PP&E in financial and tax accounting	(8,649)		794	(7,855)
Net book value of non-current assets with the tax relief (Method II) applied (excluding construction in progress)	(159,557)		7,035	(152,522)
Effect of non-current assets measured at revalued amount/deemed cost (increase in value)	(3,011,003)	114,901	118,546	(2,777,556)
Total temporary differences	**(1,910,564)**	**114,901**	**145,451**	**(1,650,212)**
Deferred tax calculated at a rate of 20 per cent	**(382,113)**	**22,980**	**29,090**	**(330,043)**
Decrease in realisable value of deferred tax assets	**(2,246)**	**-**	**(8,679)**	**(10,925)**
Deferred tax liability, net	**(384,359)**	**22,980**	**20,411**	**(340,968)**

Company

	At 31 December 2008	Recognised in other comprehen-sive income	Recognised in profit and loss	At 30 June 2009
Effect of non-current assets measured at revalued amount/deemed cost (impairment)	1,223,899		24,943	1,248,842
Impairment of financial assets	20,878		139	21,017
Bad debts	14,482		(1,125)	13,357
Impairment of property, plant and equipment	2,682		(671)	2,011
Vacation reserve	2,513		(881)	1,632
Accruals	1,993		15	2,008
Write down of inventories to net realisable value	858		101	959
Construction in progress with the tax relief (Method II) applied in 1998 - 2001, not put into operation before 30 September 2009	(16)		-	(16)
Effect of guarantee liability	(893)		-	(893)
Effect of different depreciation rates for PP&E in financial and tax accounting	(8,649)		795	(7,854)
Net book value of non-current assets with the tax relief (Method II) applied (excluding construction in progress)	(158,191)		6,901	(151,290)
Effect of non-current assets measured at revalued amount/deemed cost (increase in value)	(2,997,243)	114,901	114,356	(2,767,986)
Total temporary differences	**(1,897,687)**	**114,901**	**144,573**	**(1,638,213)**
Deferred tax calculated at a rate of 20 per cent	**(379,537)**	**22,980**	**28,915**	**(327,643)**
Decrease in realisable value of deferred tax assets	**(2,206)**	**-**	**(8,579)**	**(10,785)**
Deferred tax liability, net	**(381,743)**	**22,980**	**20,335**	**(338,428)**

22 *Income tax (continued)*

Income tax expenses recognised in the comprehensive 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 30 September 2009	Company as of 31 September 2009	Group as of 30 September 2008	Company as of 31 September 2008
Profit (loss) before income tax	47,152	51,348	102,565	103,188
Theoretical tax calculated at the tax rate of 20 % (15 % in 2008)	9,430	10,270	15,385	15,478
Effect of non-deductable expenses and not taxable income	1,182	200	506	288
Income tax	**10,612**	**10,470**	**15,891**	**15,766**
Effective income tax rate, %	**23**	**20**	**15**	**15**

23 *Bonds issued*

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

24 *Trade payables*

Trade payables of the Group and the Company are as follows:

	Group 30 September 2009	Company 30 September 2009	Group 31 December 2008	Company 31 December 2008
Debts for electricity and related services	96,833	96,833	56,271	56,271
Amounts payable for contractual works, other services	20,232	21,716	66,249	62,658
Accrued liability for electricity	9,143	9,143	28,104	28,104
Amounts payable for material values	1,505	784	2,383	1,467
VAT on accrued liability for electricity	1,212	1,212	5,089	5,089
Total	**128,925**	**129,688**	**158,096**	**153,589**

The fair value of trade payables approximates their carrying amounts.

25 *Other accounts payable and liabilities*

Other accounts payable of the Group and the Company are as follows:

	Group 30 September 2009	Company 30 September 2009	Group 31 December 2008	Company 31 December 2008
Other accrued expenses	7,508	7,508	8,693	8,693
Employment-related liabilities	3,265	2,659	3,559	1,647
Vacation reserve	2,416	1,632	3,609	2,512
Deferred VAT payable	2,209	2,209	9,999	9,999
Current portion of deferred income	774	774	598	598
Dividends payable	508	508	520	520
Natural resource tax	191	191	345	345
VAT payable to the budget	172	-	3,041	3,039
Real estate tax payable	103	103	2,440	2,440
Other accounts payable and current liabilities	5,089	43	251	189
Carrying amount	**22,235**	**15,627**	**33,055**	**29,982**

The fair value of other accounts payable approximates their carrying amounts.

26 Sales revenue

The Group's and the Company's sales revenue consists of revenue from electricity and related services. Sales revenue for the periods ended on 30 September are presented below:

	Group 30 September 2009	Company 30 September 2009	Group 30 September 2008	Company 30 September 2008
Public service obligations (PSO)	455,082	455,082	286,818	286,818
Domestic sales of electricity (excluding PSO)	215,635	215,635	391,209	391,209
Export of electricity	189,127	189,127	167,154	167,154
Electricity transmission service	163,369	163,369	178,555	178,555
Capacity reserve	99,947	99,947	97,373	97,373
Other sales of electricity and related services	5,600	5,600	3,736	3,736
Revenue from connection of new users*	508	508	437	437
Total sales revenue	**1,129,268**	**1,129,268**	**1,125,282**	**1,125,282**

* The Company and the Group had accounted for LTL 16,271 thousand (31 December 2008: LTL 14,329 thousand) of deferred revenue related to the connection of new users and related advances received from new users (Note 21) for connection to electricity networks amounting to LTL 8,704 thousand (31 December 2008: LTL 22,673 thousand) which are reclassified to deferred revenue upon the provision of connection services. The Company/Group recognises such revenue in the statement of comprehensive income during the useful life of property, plant and equipment developed. During the nine months period of 2009, the Company/Group has recognised revenue of LTL 508 thousand (nine months period of 2008: LTL 437 thousand) from connection of new users.

27 Segment reporting

Management has determined the operating segments based on the reports reviewed by the Board of directors. The Board considers the business from geographical and service perspective.

The Group has distinguished the following main segments: activities of transmission system operator (TSO), energy trading and electricity export/import. The Group also carried out other, non-operating activities. Since 1 January 2009, in order to provide more precise disclosures about segments of the Group the following additional segments were distinguished within the activities of transmission system operator: electricity transmission, trade in balancing/regulating electricity, provision of capacity reserve services, public service obligations (PSO) electricity sales, and other services of TSO.

The electricity transmission segment is engaged in providing transmission services to network users and is responsible for management, maintenance, development, integrity and coherence of the transmission network of the Lithuanian power system and the interconnections with the power systems of other countries, as well as ensuring reliable and safe operation of the entire Lithuanian power system. These activities are regulated by the National Control Commission for Prices and Energy (hereinafter the Commission) by establishing the tariffs for electricity transmission services.

Trade in balancing/regulating electricity is a separate TSO service unregulated by the Commission ensuring the balance of electricity generation and consumption levels.

Provision of capacity reserve services represent a separate service rendered under a regulated rate tariff. Almost all electricity generated by Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant after the elimination of internal turnovers was allocated to the segment of sales of capacity reserve services and to the activities of transmission trading and electricity export/import.

The segment of public service obligations electricity sales has been distinguished as these services are rendered under a regulated rate tariff in accordance with regulatory requirements.

The energy trading segment is engaged in a wholesale trade in electricity in the domestic market.

The electricity export/import segment is engaged in the export of electricity to Latvia, Estonia and via Estlink cable to Finland. Revenue of the export segment also includes sales of electricity to Energijos Realizacijos Centras UAB for export to Russia. Imported electricity is either sold to export clients or domestic customers; in the latter case the respective revenue and expenses are included in the energy trading segment.

Other activities include repair services of energy equipment, designing of energy facilities and other services.

Energy trading and provision of services associated with it between the Company's segments is performed at cost (without a mark-up). Transactions between the Group companies are conducted at market prices, except for energy trading and the related services which are traded within the Group at prices established by the Commission.

27 *Segment reporting (continued)*

The Group's information on segments as at 30 September 2009 and for the period then ended is presented in the table below:

	Segments earning external revenue									Segment earning internal revenue	Total
		including									
January – September 2009	**Trans-mission System operator (TSO)**	**Electricity trans-mission**	**Trade in balancing/regulating electricity**	**Provision of capacity reservation service**	**PSO service**	**Other TSO services**	**Energy trade (market operator)**	**Export/import**	**Other segments**	**Generation**	
Total segment revenue	**799,675**	**203,620**	**34,951**	**99,947**	**455,082**	**6,075**	**251,719**	**202,311**	**34,182**	**73,323**	**1,361,210**
Inter-segment revenue	(58,628)	(40,251)	(18,377)	-	-	-	(52,625)	(13,184)	-	(73,323)	(197,760)
Revenue from external customers	**741,047**	**163,369**	**16,574**	**99,947**	**455,082**	**6,075**	**199,094**	**189,127**	**34,182**	**-**	**1,163,450**
Operating profit (loss)	**(15,105)**	**(49,247)**	**(1,820)**	**(11,520)**	**41,471**	**6,011**	**5,710**	**51,762**	**348**	**-**	**42,715**
Depreciation and amortisation	120,620	109,456	-	11,161	1	1	2,858	1,465	8,137	-	133,081
Loss on property, plant and equipment revaluation	55,482	50,346	-	5,134	1	1	1,315	674	2,081	-	59,552
Finance income (costs), net	x	x	x	x	x	x	x	x	x	x	**4,437**
Profit (loss) before income tax	x	x	x	x	x	x	x	x	x	x	**47,152**
Income tax	x	x	x	x	x	x	x	x	x	x	**(10,612)**
Net profit (loss)	x	x	x	x	x	x	x	x	x	x	**36,540**
Total segment assets	**2,524,020**	**2,197,729**	**X**	**326,267**	**12**	**12**	**54,400**	**76,423**	**142,436**	**166,396**	**2,963,675**
Unallocated assets											**321,496**
Total assets											**3,285,171**

27 *Segment reporting (continued)*

The Group's information on segments as at 30 September 2008 and for the period then ended is presented in the table below:

January – September 2008	Segments earning external revenue									Segment earning internal revenue	Total
	Trans-mission System operator (TSO)	including					Energy trade (market operator)	Export/ import	Other segments	Generation	
		Electricity trans-mission	Trade in balancing/regulating electricity *	Provision of capacity reservation service	PSO service	Other TSO services					
Revenue from external customers	566,919	178,555	-	97,373	286,818	3,735	391,209	167,154	60,676	-	1,185,958
Operating profit (loss)	30,579	2,611	-	2,057	28,515	(2,604)	3,857	50,454	18,870	-	103,760
Depreciation and amortisation	98,586	88,867	-	9,281	-	-	2,228	866	1,349	-	103,029
Finance income (costs), net	x	x	x	x	x	x	x	x	x	x	(1,195)
Profit (loss) before income tax	x	x	x	x	x	x	x	x	x	x	102,565
Income tax	x	x	x	x	x	x	x	x	x	x	(15,891)
Net profit (loss)	x	x	x	x	x	x	x	x	x	x	86,674
Total segment assets	2,234,875	1,919,492	9	315,341	21	12	53,453	71,974	119,054	142,713	2,622,068
Unallocated assets											277,411
Total assets											2,899,479

* the revenue and expenses of this segment for the year 2008 are not comparable to the Trade in balancing and regulating electricity revenue and expenses in 2009, therefore it is attributed to the Energy trade segment in 2008.

27 Business and geographical segments (continued)

The Company exports electricity to the EU Member States and Russia. In the nine months period of 2009, the Company's revenue from a direct export of electricity amounted to LTL 170.1 million (2008: LTL 111.2 million). Also, the Group exported metal structures and repair services.

In the nine months period of 2009 and 2008, the Group's and the Company's revenue according to countries was as follows:

Country	Group 30 September 2009	Company 30 September 2009	Group 30 September 2008	Company 30 September 2008
Lithuania	990,231	979,413	1,032,707	992,430
Estonia	111,345	111,108	52,971	52,892
Finland	34,679	34,679	53,693	52,962
Latvia	24,268	24,268	46,003	45,996
Germany	2,104	-	152	-
Denmark	599	-	-	-
Russia	224	-	432	-
Total	**1,163,450**	**1,149,468**	**1,185,958**	**1,144,280**

Apart from a direct export, the Company sells peak energy intended for exports. In the nine months period of 2009, revenue generated from sales of peak energy amounted to LTL 5.0 million (2008: LTL 4.1 million). The Company has also been exported excess basic electricity and electricity produced during holidays and weekends. In the nine months period of 2009, revenue from such sales amounted to LTL 14.1 million (2008: LTL 10.9 million).

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

28 Other operating income

In the nine months period of 2009 and 2008, the Group's and the Company's other operating income included as follows:

	Group 30 September 2009	Company 30 September 2009	Group 30 September 2008	Company 30 September 2008
Repairs and other services	13,391	13	40,315	-
Data transmission	9,159	9,159	9,622	9,622
Rent of property	4,056	3,984	2,455	2,047
Internet services	2,495	2,495	2,593	2,612
Rent of infrastructure	1,975	1,975	1,910	1,910
Other income	978	604	1,657	1,151
IT services	820	820	468	468
Health, catering and recreation services	695	695	1010	802
Voice telephony services	428	428	357	386
Design works	158	-	289	-
Gain on disposal of property, plant and equipment	27	27	-	-
Total other operating income	**34,182**	**20,200**	**60,676**	**18,998**

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 30 September 2009 and 30 September 2008:

	30 September 2009	30 September 2008
Repair services income from projects in progress recognised from the beginning of the project	15,115	46,670
Total repair services expenses recognised from the beginning of the project	16,189	12,469
Repair services income recorded in the current year statement of comprehensive income	198	40,582
Repair services expenses recorded in the current year statement of comprehensive income	174	11,467
Unbilled revenue	-	-
Trade receivables (accounted for in accounts receivable)	10,879	9,266
Advances received	108	876

29 Finance income

In the nine months period of 2009 and 2008, the Group's and the Company's finance income included as follows:

	Group 30 September 2009	Company 30 September 2009	Group 30 September 2008	Company 30 September 2008
Interest income	5,816	5,830	979	925
Foreign currency exchange gain	8	8	43	43
Dividends received	-	-	-	633
Other income	221	221	39	-
Total finance income	**6,045**	**6,059**	**1,061**	**1,601**

30 Other finance costs

In the nine months period of 2009 and 2008, the Group's and the Company's other finance costs included as follows:

	Group 30 September 2009	Company 30 September 2009	Group 30 September 2008	Company 30 September 2008
Interest expenses	1,434	1,282	1,209	1,180
Loan service costs	20	20	33	33
Foreign currency exchange loss	14	14	38	36
Other expenses	2	2	976	1,051
Total finance costs	**1,470**	**1,318**	**2,256**	**2,300**

31 Related party transactions

Purchase and sale of goods and services:

The Group's transactions with related parties during the nine months period of 2009 and the balances arising on these transactions as at 30 September 2009 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministries of the Economy and Energy of the Republic of Lithuania (including LEO LT, AB and its subsidiaries)	37,538	92,493	542,959	832,951
Associates of the Group	-	-	8,517	547
Total	**37,538**	**92,493**	**551,476**	**833,498**

The Company's transactions with related parties during the nine months period of 2009 and the balances arising on these transactions as at 30 September 2009 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministries of the Economy and Energy of the Republic of Lithuania (including LEO LT, AB and its subsidiaries)	37,517	92,402	542,748	832,033
Subsidiaries of the Company	1,507	43	3,034	173
Associates of the Company	-	-	8,517	547
Total	**39,024**	**92,445**	**554,299**	**832,753**

31 Related party transactions (continued)

The Group's transactions with related parties during nine months period of 2008 and the balances arising on these transactions as at 31 December 2008 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministries of the Economy and Energy of the Republic of Lithuania (including LEO LT, AB and its subsidiaries)	71,138	184,910	471,321	712,677
Associates of the Group	10	127	7,370	163
Total	**71,148**	**185,037**	**478,691**	**712,840**

The Company's transactions with related parties during nine months period 2008 and the balances arising on these transactions as at 31 December 2008 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministries of the Economy and Energy of the Republic of Lithuania (including LEO LT, AB and its subsidiaries)	70,858	184,695	470,317	706,998
Subsidiaries of the Company	2,455	18	1,497	96
Associates of the Company	10	127	7,370	163
Total	**73,323**	**184,840**	**479,184**	**707,257**

The major related party sale and purchase transactions in 2009 and 2008 represent transactions with the entities controlled by the Ministries of the Economy and Energy of the Republic of Lithuania, VĮ Ignalinos Atominė Elektrinė (state company Ignalina Nuclear Power Plant) and Lietuvos Elektrinė AB (Lithuanian Power Plant). The Company's purchases from these suppliers mainly included purchases of electricity, capacity, and PSO services. Sales transactions mainly included sales of electricity, capacity, electricity transmission services and PSO services.

The major purchase and sale transactions in the LEO LT, AB group in 2008 were concluded with Rytų Skirstomieji Tinklai AB, VST AB and LEO LT, AB. In the nine months period of 2009 and in 2008 LEO LT, AB provided management services to the Company.

Transactions with state entities other than those controlled by the Ministries of the Economy and Energy include regular business transactions conducted at arm's length basis and are not disclosed in the tables above.

The Company sold capacity to its associate Nordic Energy Link AS, paid capacity, operation, transmission and balancing fees to this company, and purchased capacity from it.

There were no guarantees or pledges given or received in respect of the related party payables and receivables, except for guarantee to associate described in Note 34. Related party payables and receivables are expected to be settled in cash or set-off against payables/receivables to/from a respective related party.

Payments to management

	Group 30 September 2009	Company 30 September 2009	Group 30 September 2008	Company 30 September 2008
Employment-related payments	1,480	779	2,324	1,424
Termination benefits	509	329	-	-
Other material amounts (bonuses for Board members)	-	-	80	80
Number of management staff (average annual)	22	7	31	12

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

32 Basic and diluted earnings per share (in LTL)

In 2009 and 2008, basic and diluted earnings per share were as follows:

	At 30 September 2009	At 30 September 2008
Net profit (loss) attributable to the Company's shareholders	(40,878)	87,422
Weighted average number of shares (units)	689,515,435	689,515,435
Basic and diluted earnings (deficit) per share (in LTL)	0.06	0.13

33 Financial risk management

The Group companies are exposed to financial risks in their operations, i.e. credit risk, liquidity risk and market risk (foreign exchange risk, interest rate risk in relation to fair value and cash flows, and securities price risk). In managing these risks, the Group companies seek to mitigate the effect of factors which could make a negative affect on the performance of the Group and the Company.

Financial instruments by category

Financial assets	**Group 30 September 2009**	**Company 30 September 2009**	**Group 31 December 2008**	**Company 31 December 2008**
Trade receivables	131,069	124,450	136,292	126,640
Other accounts receivables	9,773	9,888	17,118	16,773
Term deposits	30,160	30,000	200	-
Cash and cash equivalents	62,083	60,872	70,457	69,606
Loans and receivables	**233,085**	**225,210**	**224,067**	**213,019**
Other financial assets	39,705	39,705	15,994	15,994
Held to maturity investments	**39,705**	**39,705**	**15,994**	**15,994**
Total	**272,790**	**264,915**	**240,061**	**229,013**

Financial liabilities	**Group 30 September 2009**	**Company 30 September 2009**	**Group 31 December 2008**	**Company 31 December 2008**
Borrowings	14,309	13,811	14,082	13,811
Bonds issued	-	-	25,896	25,896
Finance lease liabilities	1,991	-	2,489	-
Trade payables	128,925	129,688	158,096	153,589
Other accounts payable and liabilities	30,444	23,836	58,652	55,579
Financial liabilities at amortised cost	**175,669**	**167,335**	**259,215**	**248,875**

Credit risk

As at 30 September 2009 and 31 December 2008, credit risk was related to the following items:

	Group 30 September 2009	**Company 30 September 2009**	**Group 31 December 2008**	**Company 31 December 2008**
Financial assets	272,790	264,915	240,061	229,013

As at 31 September 2009 and 31 December 2008, financial assets included 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 accounts receivable is limited because the main buyers are reliable customers. As at 30 September 2009 and 31 December 2008 the credit quality of neither overdue, nor impaired trade receivables is high, as the major part of these receivables are from operators of distribution network and large industrial companies. The Group and the Company have significant credit risk concentration, because credit risks are shared among 10 main customers, which account for approximately 97 per cent of the total Group's and Company's trade receivables.

33 *Financial risk management (continued)*

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 Fitch ratings as of 30 September 2009:

Bank	Non-current borrowing rating	Current borrowing rating
AB SEB Bankas	A+	F1
Swedbank, AB	A	F1

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

Bank	Non-current borrowing rating	Current borrowing rating
AB SEB Bankas	A+	F1
Swedbank, AB	A1	F1

On 27 March 2009, the international credit rating agency Standard&Poors satisfied Lietuvos Energija's AB request to suspend the Company's ratings. On the grounds of the decreased credit rating of the Republic of Lithuania, Standard&Poors respectively downgraded the non-current borrowing rating of Lietuvos Energija AB for borrowings in foreign currency from BBB+ to BBB and the current borrowing rating - from A-2 to A-3. The Company has filed the suspension request as the rating agency has to make an analysis of the financial capacity of the entire LEO LT, AB Group.

Liquidity risk

The liquidity risk is managed by planning the cash flows of the Group. In order to manage the liquidity risk, cash flow forecasts are prepared. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as at 30 September 2009 were 1.72 and 1.67 respectively (31 December 2008: 0.97 and 0.94, respectively). The Company's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as at 30 September 2009 were 1.71 and 1.69 respectively (31 December 2008: 0.95 and 0.94, 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	Within third – fifth years	After five years
At 30 September 2009				
Loans and bonds	14,309	-	-	-
Financial lease liabilities	343	503	1,007	-
Trade and other payables	159,369	-	-	-
At 31 December 2008				
Loans and bonds	26,167	14,470	-	-
Financial lease liabilities	595	683	1,510	-
Trade and other payables	188,460	-	-	-

Company	Within the first year	Within the second year	Within third – fifth years	After five years
At 30 September 2009				
Loans and bonds	13,811	-	-	-
Trade and other payables	153,524	-	-	-
At 31 December 2008				
Loans and bonds	25,896	14,470	-	-
Trade and other payables	185,517	-	-	-

33 *Financial risk management (continued)*

Interest rate risk

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

According to the principles of financial risk management approved by the Group companies, 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 companies is formed on the basis of the following principle: at least 50% of all the borrowings must be at the fixed interest rate, the remaining borrowings – at the floating interest rate.

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

Foreign currency risk

In order to manage the foreign exchange risk, the Group companies conclude 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 2009 and 2008.

Risk of security prices

The Company's and the Group's investments in securities represent only investments in government bonds (Note 12), which are classified as held to maturity by management. The Group/Company has not acquired any securities (shares, bonds etc.) for trading, thus they are not exposed to 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 and associates by taking part in the formation of the management policy of operations of these companies.

Fair value of financial assets and liabilities

The Group's and the Company's principal financial assets and liabilities not carried at fair value are trade receivables and other accounts receivable, trade payables and other debts, long-term and short-term borrowings.

Fair value is defined as the amount at which the instrument could be exchanged or at which a mutual liability could be set off between knowledgeable parties in an arm's length transaction willing to buy/sell an asset or to set off a mutual liability. Fair value is determined on the basis of 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 short-term trade and other accounts receivable, short-term trade and other accounts payable and short-term borrowings approximates their fair value.
- The fair value of a long-term debt is based on the quoted market price for the same or similar loan or on the current rates available for debt with the same maturity profile. The fair value of long-term borrowings with variable interest rates approximates their carrying amounts.

34 *Contingent liabilities and commitments*

Guarantees issued

In 2005, the Company guaranteed, under the guarantee agreements, the fulfilment of 25 per cent of Nordic Energy Link's AS liabilities to Nordic Investment Bank (LTL 45,750 thousand) and to SEB Eesti Uhispank AB (LTL 26,759 thousand). The guarantees expire after the full repayment of the loans by the associate to the respective banks, i.e. 15 March 2014 and 15 September 2014, respectively. The Group/Company has accounted for these guarantees at fair value in the financial statements for 2008. There was no significant change in the carrying amount of the guarantee obligation in the statement of financial position as at 30 September 2009, therefore, its value was not recalculated (31 December 2008: LTL 1,304 thousand). The Group/Company has not accounted for any additional provisions related to these guarantees, since management expects that the associate will fulfil its liabilities to the banks.

34 Contingent liabilities and commitments (continued)

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. In February 2009, the Arbitration Court rendered its award, which satisfied Eesti Energia AS's claim in part, therefore, a relevant liability for the amount of LTL 26,009 thousand, reflecting the amounts awarded, was accounted for in the Company's statement of financial position as at 31 December 2008. This amount also includes additional claims received from Eesti Energia AS after the rendering of the arbitration award, which are related with similar transactions concluded by 31 December 2008. On 22 April 2009, the Company paid to Eesti Energia AS LTL 20,089 thousand, which consist of amounts awarded and additional penalties accrued by the date of payment. On 1 July 2009, an additional arrangement to the agreement was concluded based on which if Lietuvos Energija AB fulfils the requirements of the additional arrangement by 31 December 2009, Eesti Energia AS will withdraw all its pending claims filed to Lietuvos Energija AB under the agreement. The provision used during the first half of 2009 amounts to LTL 17,800 thousand and the remaining balance of provision as at 30 September 2009 of LTL 8,209 thousand relates to the additional claims received from Eesti Energia AS. The Group/Company considers that the provision for additional claims received from Eesti Energia AS can be released only when the all claims by Eesti Energia AS will be withdrawn.

As at 31 December 2008, the Company disputed accounts payable to Vilniaus Energija UAB related to the electricity supplied by this entity under public service obligation (PSO) scheme in the amount of LTL 899 thousand, which were not accounted for in the statement of financial position. 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 the Economy of the Republic of Lithuania. The supplier do not agree with the recalculation made by the Company and claim the payment of the invoiced amounts for the PSO energy supplied. With reference to the surrounding circumstances of the dispute, available evidence, arguments and explanations, the dispute might be settled in favour of Lietuvos Energija AB, therefore no provisions in respect of these claims are accounted for the interim financial statements.

In February 2009, Fortis Energy UAB and Kauno Termofikacinė Elektrinė UAB filed a claim of LTL 841 thousand against the Company concerning the terms and conditions of an agreement for 2009. UAB Fortis has also filed a claim of LTL 3,126 thousand for the repayment of funds received under the agreement on the services of the electricity transmission dated 10 October 2007. Both disputes - over the performance of agreement of 10 October 2007 and the terms of the 2009 agreement - are pending in court. With reference to the surrounding circumstances of the disputes, available evidence, arguments and explanations on claims raised by the other party to the dispute, it is unlikely that a reliable estimate of the outcome of the dispute and its impact on the Company's future activities can be made at the current moment.

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

Under the agreement concluded by the shareholders of LEO LT, AB - the State of Lithuania represented by the Ministry of the Economy and NDX Energija UAB, in the process of formation of LEO LT, AB group (a national electric power company), the shares of Lietuvos Energija AB 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 Lietuvos Energija AB into separate legal entities and the shares of these newly established entities are to be transferred to the State of Lithuania for a symbolic fee of 1 LTL by 27 May 2010.

The agreement allows the Company to use Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant in its operations until the date of the transfer 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 the separation 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 Lietuvos Energija AB for the expenditures incurred after 1 January 2008 until the date of the transfer under the power plant modernisation contract specified in the agreement.

On 29 September 2009, the Board of Public Company "Lietuvos energija" approved the Spin-Off Terms according to which Kaunas Hydro Power Plant and Kruonis Pump Storage Plant will be split from Public Company "Lietuvos energija" (hereinafter, AB "Lietuvos energija" Spin-Off Terms). The Terms were prepared by the Board of AB "Lietuvos energija" on the basis of the decisions of the Extraordinary General Meeting of Shareholders of AB "Lietuvos energija" as of 4 December 2008 and 8 September 2009 and Article 71 of the Republic of Lithuania Law on Companies.

During the spin-off, electricity production and storage of reserve capacity operations at Kaunas Hydro Power Plant and electricity production and storage of reserve capacity operations at Kruonis Pump Storage Plant will be split from Public Company "Lietuvos energija" and will be undertaken by the separate new companies.

Whereas the value of net assets transferable to the State cannot be reasonably measured as on the date of interim financial statements, as described above, the Management did not record any liabilities pertaining to this obligation. The liability will be recorded when it is possible to measure the amount which reduces accordingly the equity of the Company and the Group.

34 *Contingent liabilities and commitments (continued)*

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 these interim financial statements as described above, 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.

Contingency in respect of determination of the value of property, plant and equipment used in the licensed activities

At the date of these interim financial statements, a significant uncertainty exists relating to the recoverable amount of property, plant and equipment (as defined by International Accounting Standard No. 36) used by the Company and Group in carrying out licensed activities under regulated service prices and tariffs.

On 1 June 2009 Law No. XI-198 amending Articles 2, 5, 6, 43, 44 and 48 of the Lithuanian Law on Electricity of 19 March 2009 became effective. The amended law requires the regulatory authority to prepare the principles of determination of the value of property, plant and equipment used in the licensed activities and the Lithuanian Government to approve these principles. As at the date of these interim financial statements, these principles have not been approved.

Prior to the amendment to the aforementioned law, determination of regulated prices and tariffs applicable to the Company and Group was based on the balance sheet value of property, plant and equipment used in the licensed activities of the service provider as reported in the financial statements. The effect of such provision of the law was to ensure that the recoverable amount of the property, plant and equipment could not be less than its balance sheet value. The amended law provides no such assurance.

As a result of the above uncertainty, the management of the Company and Group is unable to assess what impact the new principles of determination of the value of property, plant and equipment used in the licensed activities will have on the recoverable amounts of property, plant and equipment of the Company and Group and on tariff setting.

35 *Capital management*

Capital consists of the equity capital disclosed in the statement of financial position.

The Group and the Company manage the capital structure and make adjustments to it in the light of changes in economic conditions and the operating risks. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, repay capital to shareholders or issue new shares. No changes were introduced in the objectives, policies or processes of capital management as at 30 September 2009 and 31 December 2008.

According to the Law on Companies of the Republic of Lithuania, equity of the Group and the Company must account for at least ½ of the amount of the authorised capital. No other external capital requirements have been imposed on the Group and the Company. As at 30 September 2009 and 31 December 2008, the Group and the Company were not in breach of the above mentioned requirement.

36 *Post-balance sheet events*

On 21 October 2009, a subsidiary of AB "Lietuvos energija", the electricity supply company UAB "Energijos tiekimas", was registered in the Register of Legal Entities. Having obtained a licence of an independent supplier, the company will engage in retail trade in electricity on the Lithuanian electricity market and electricity markets of the neighbouring countries. The authorised capital of the company is 750 000 litas. AB "Lietuvos energija" owns 100 per cent shares in the new company.

On 22 October 2009, UAB "LITGRID", a subsidiary of AB "Lietuvos energija", was registered in the Register of Legal Entities. Having obtained a licence for electricity transmission, the company will carry out the activity of the transmission system operator. The authorised capital of the company is 500 000 litas. AB "Lietuvos energija" owns 100 per cent shares in the new company.

On 23 October 2009, the Extraordinary General Meeting of Shareholders of AB "Lietuvos energija" adopted the decisions to remove the Board of AB "Lietuvos energija" *in corpore* and to elect Aloyzas Koryzna, Henrikas Bernatavičius, Arvydas Tarasevičius, Šarūnas Vasiliauskas and Vytautas Vazalinskas to serve on the Board of AB "Lietuvos energija" for the remaining term of office of the Board that has ceased to exist.

As at 31 December 2008, the Company disputed accounts payable to Vilniaus Energija UAB related to the electricity supplied by this entity under public service obligation (PSO) scheme in the amount of LTL 899 thousand, which were not accounted for in the statement of financial position. 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 the Economy of the Republic of Lithuania. The supplier do not agree with the recalculation made by the Company and claim the payment of the invoiced amounts for the PSO energy supplied. With reference to the surrounding circumstances of the dispute, available evidence, arguments and explanations, the dispute might be settled in favour of Lietuvos Energija AB, therefore no provisions in respect of these claims are accounted for the interim financial statements.

36 Post-balance sheet events (continued)

On 3 November 2009, the Court approved a conciliation agreement between AB "Lietuvos elektrinė" and AB "Lietuvos energija" regarding a debt of 6.538 million litas for electricity sold.

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