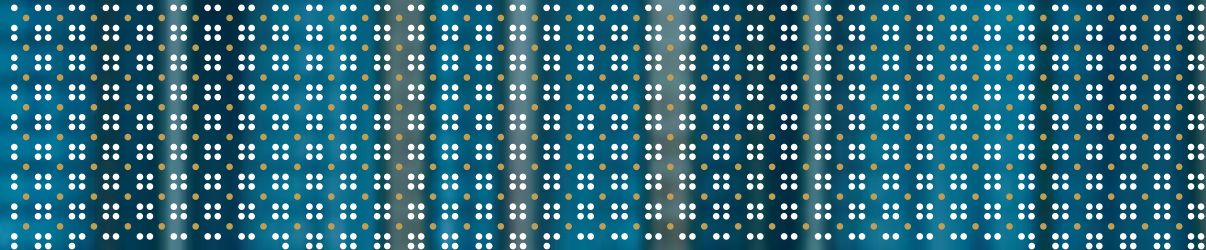




LIETUVOS ENERGIJA



LIETUVOS ENERGIJA AB



2007 Annual Report



LIETUVOS ENERGIJA



# Annual Report 2007

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## HIGHLIGHTS

<b>Operating activity indicators, million LTL</b>	<b>2007</b>	<b>2006</b>
Operating income	1111	939
Operating costs	1046	906
EBITDA	208	186
Operating profit	64	26
Net profit	47	18
<hr/>		
Assets	2745	2698
Shareholders' equity	2210	2169
Financial liabilities	90	117
Investments	152	156
Cash flows from operating activities	196	184
<hr/>		
Return on assets (ROA), %	1.7	0.7
Return on equity (ROE), %	2.2	0.8
Return on capital employed (ROCE), %	2.8	1.2
Debt to equity ratio, %	24	24
Financial debt to equity ratio, %	4	5
Equity to assets ratio, %	81	80
<hr/>		
Profit per share, LTL	0.069	0.027

## CREDIT RATING

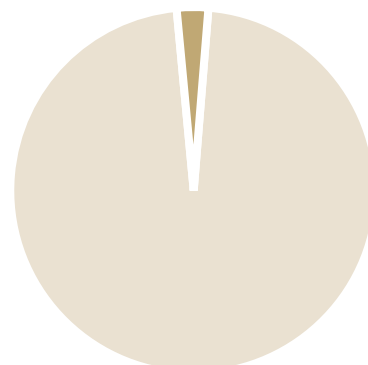
### Standard & Poor's

Corporate long-term credit rating	A-
Corporate short-term credit rating	A-2
Outlook	Negative*)

\*) The main reason for changing the credit rating outlook from stable into negative – potential increase of risk in the company's operations due to implementation of the construction project of the new nuclear power plant.

### Structure of share capital

- Lithuanian state
- Other shareholders



## GENERAL DIRECTOR'S REPORT



For the sixth successive year, Lietuvos Energija has reliably and safely performed the functions of the transmission system operator in the electric power sector. In our operations we are guided by our long-term experience and we are ready to accept future challenges. The year 2007 was marked with numerous achievements and newly raised targets for the company. We competently performed our primary responsibility – ensuring a reliable supply of electricity to the country – no major accidents occurred in the system. Moreover, a growing economy and, alongside that, an increase in the consumption of electricity positively impacted the company – the operations of Lietuvos Energija Group were profitable, and brought over LTL 63m to the state budget.

A new price for the electricity transmission service, which came into validity at the beginning of the year, did not surpass the set price cap. We reduced export costs and



changed the structure of export – our export volumes to foreign countries increased 11 percent year-on-year. Apart from the traditional directions of exported electricity flowing to Russia, Latvia and Estonia, we started trading electricity with Scandinavian countries.

By taking into account the requirements set for the reliability of supply, quality, management and environmental protection, we improved the conditions for access to the grid, and planned long-term development of the electric power system in line with scientific research achievements. To improve the reliability of the operation of the power system, we implemented a consecutive investment programme. Our investments totalled LTL 152m. One-half of this amount was allocated to rehabilitating the transmission grid, reconstructing substations with the aim to reduce the probability of accidents and to achieve a more efficient operation of the power system. We implemented new environmentally friendly technologies abiding by the requirements of legal acts and standards regulating the protection of the environment, and put into practice preventive measures to reduce the hazardous impact on the environment.

By assigning top priority for the integration of the Lithuanian power system with the West Europe electricity market, we undertook feasibility studies for the interconnection of the power systems of Lithuania and Sweden, as well as Lithuania and Poland. Based on the assessed technical, economic and legal aspects, the results of both studies confirmed that such interconnections between the power systems are feasible. Preparatory works were completed for the establishment of the company, which will implement the Lithuanian-Polish interconnection project. By the assignment of the Government of the Republic of Lithuania, we have been carrying out important preparatory works for the construction project of a new nuclear power plant in Lithuania. The most notable among these works is the environmental impact assessment – we approved the assessment programme, held an open debate with the public of Lithuania and neighbouring countries, and started its implementation.

We are proud that the turnover of employees in the company was insignificant. This is our highest evaluation, which is the evidence of the competence and loyalty of our employees. The continuous and systematic qualification improvement was and will remain in the future the main factor predetermining success in accomplishing the goals raised for the company.

The coming years will bring new challenges to the company along with big responsibility for the implementation of the goals set forth in the National Energy Strategy, with changes in the electricity sector, but based on the experience and expertise of our specialists, we feel confident and ready for the future.



**Rymantas Juozaitis**  
General Director

## BOARD

### Jurgis Vilemas

Chairman of the Council of the Lithuanian Energy Institute, Chairman of the Board since 14/02/2000

### Vida Dzermeikienė

Head of the Electricity and Heat Division, Energy Department of the Ministry of Economy, member of the Board since 01/08/2002

### Marijus Franckevičius

Director of SC Energy Agency, Lithuania, member of the Board since 08/11/2004

### Rymantas Juozaitis

General Director of Lietuvos Energija AB, member of the Board since 07/02/2002

### Dominikas Pečiulis

Head of the State Privatisation and Management Division, Enterprise Economics and Management Department of the Ministry of Economy, member of the Board since 08/11/2004

### Algimantas Zaremba

Director of the Energy Department of the Ministry of Economy, member of the Board since 09/10/2001



LIETUVOS ENERGIJA

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## EXECUTIVE BOARD



Lietuvos Energija is led by

**Rymantas  
Juozaitis**  
General Director

The company's major areas of activity are managed by:

**Sigitas  
Baranauskas**  
Chief  
Financier

**Petras Povilas  
Škiudas**  
Grid  
Director

**Rimantas  
Šukys**  
Finance  
Director

**Nerilė  
Naprienė**  
Personnel  
Director

**Vladas  
Paškevičius**  
Power  
System Director

**Algimantas  
Nemira**  
General  
Affairs Director



## ECONOMIC ENVIRONMENT

### LITHUANIA'S KEY MACROECONOMIC INDICATORS

	2007	2006	2005	2004
Unemployment rate, %	4.3	5.6	8.3	11.4
Inflation, %	8.1	4.5	3.0	2.9
Exports, million LTL	43234	38888	32767	25819
Imports, million LTL	60987	53275	43152	34384
GDP, million LTL	96773	81905	71380	62587
GDP change, %	8.8	7.7	7.9	7.3
GDP per capita, LTL	28661	24132	20906	18217

[data of the Statistics Department of Lithuania]

In 2007, calculated at comparative prices for the year 2000, the gross domestic product (GDP) of Lithuania increased by 8.8 percent as compared to 2006 (in 2006, it increased by 7.7 percent as compared to 2005). Growth of total added value was promoted by changes in created added value in the agriculture, wholesale and retail trade, and storage and telecommunications companies.

The growth of GDP in Lithuania was one of the highest in the European Union, and in 2007 it was second only to Latvia, where GDP growth was 10.2 percent. According to preliminary estimations, in 2007 GDP growth in Estonia was 7.1 percent, in Poland – 6.5 percent, in Finland – 4.4 percent, and in Sweden – 2.6 percent.

In the latter years, growth of the economy in Lithuania was promoted by domestic demand. Rapid augmentation of borrowing was one of the main factors predetermining the increase of investments in non-current tangible assets, household consumption and, as a result, GDP augmentation.

In December 2007, yearly inflation amounted to 8.1 percent. The level of yearly inflation can be accounted for by a 15.5 percent increase in prices of food products and soft drinks, a 14.1 percent increase in prices of accommodation, water, electricity, gas and other types of energy resources and related services; and a 9.6 percent increase in prices of transport goods and services. In 2007, average yearly inflation was 5.7 percent.

The country's rapid economic development boosted electricity consumption. In 2007, to cover domestic demand, Lietuvos Energija transmitted 9.7 TWh of electricity via high voltage lines, i.e. an increase of 3.1 percent year-on-year.

In 2007, as compared to 2006, exports and imports in Lithuania were up 11.2 and 14.5 percent respectively. The foreign trade deficit of Lithuania was LTL 17.8 bn and was 23.4 percent higher than 2006. Import growth was conditioned by an increased import of road vehicles (41.2 percent), organic chemical products (2.1 times), and electrical equipment and machinery (20.2 percent). Growing exports can mainly be accounted for by the intensifying export of plastic and plastic ware (74.8 percent), road vehicles (23.5 percent), fertilisers (48.9 percent), and machinery and mechanical equipment (21 percent).



In 2007, the main export partners of Lithuania were: Russia (15 percent), Latvia (12.8 percent), Germany (10.5 percent), and Poland (6.3 percent). The main import partners were: Russia (18.2 percent), Germany (14.9 percent), Poland (10.6 percent), and Latvia (5.5 percent).

The bulk of export in 2007 was in mineral products (13.8 percent), machinery and mechanical electric equipment (12.9 percent), and means of transport and auxiliary devices (10.5 percent). The biggest imports were in machinery and mechanical electric equipment (17.5 percent), mineral products (17.3 percent), and means of transport and auxiliary devices (16.4 percent).

In 2007, material investments grew rapidly and went beyond the investments of 2006 by 24.6 percent, although material investments in supplies of electricity, gas and water dropped by 1.8 percent. A recent growth in material investments was promoted by EU funds, internal lending opportunities and the increasing profitability of local companies.

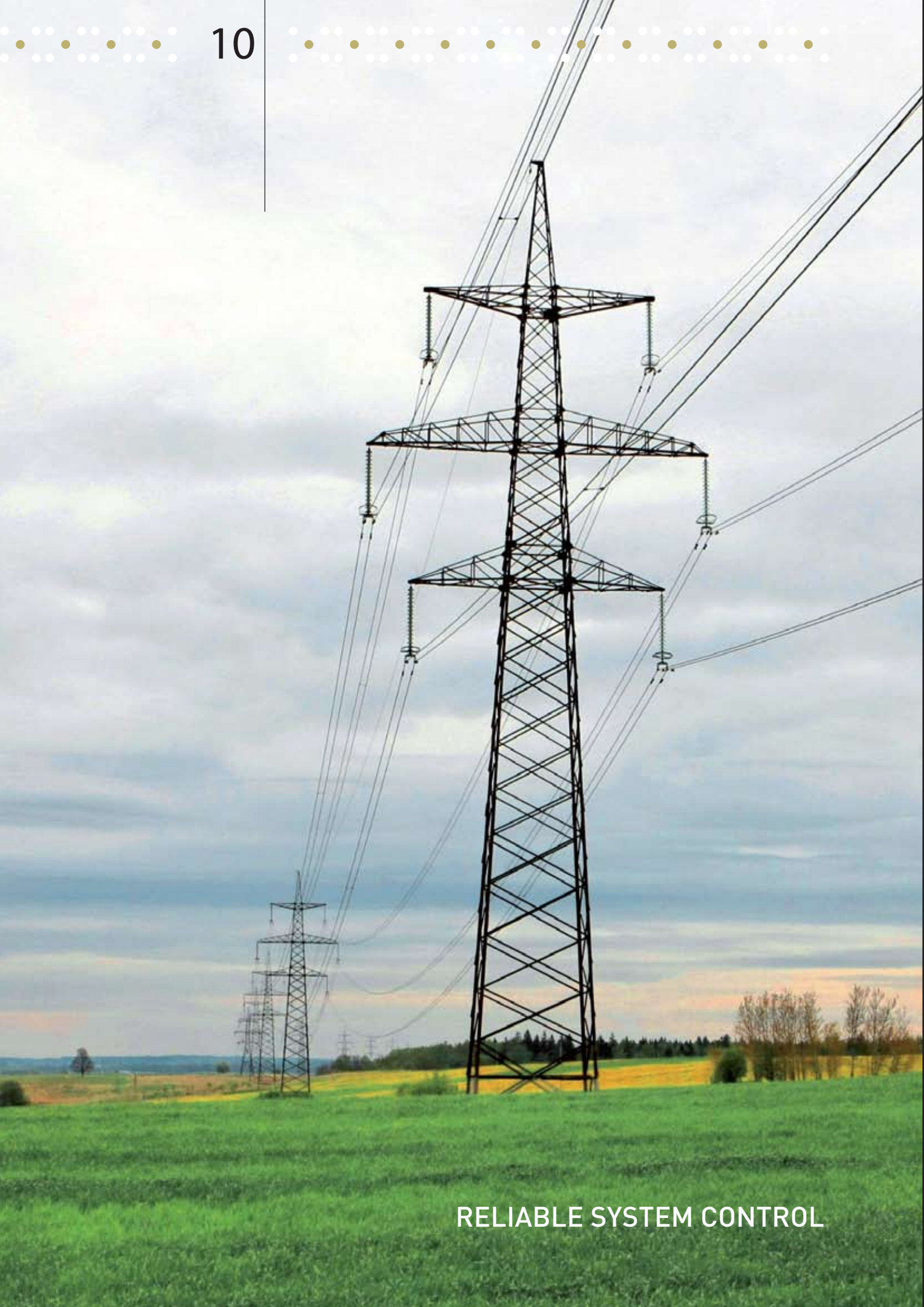
Revenues of local companies in 2007 for goods sold and services rendered were 23 percent higher than in the previous year. Pre-tax profit earned by companies in 2007 reached almost LTL 16bn, 1.7 times higher than in 2006. The profit of companies operating in the sector of business services and trade doubled; the profit increased by more than a third in construction, transport and industrial companies. Average profitability of companies grew from 6.2 percent in 2006 to 8.8 percent in 2007.

In 2007, as compared to 2006, the profitability indicators of Lietuvos Energija considerably improved: return on equity increased by 1.3 percent, return on assets – by 1.0 percent. Earnings before interest, taxes, depreciation and amortization (EBITDA) were up by LTL 22.1m. Increased profit enabled the company to maintain a fairly high level of investment and renovation of non-current tangible assets.

The country's economic forecasts for 2008–2010 (the projections of economic indicators prepared by the Ministry of Finance of the Republic of Lithuania):

- It is projected that GDP growth will slow down: in 2008 – up to 5.3 percent, in 2009 – 4.5 percent, in 2010 – 5.2 percent.
- The level of unemployment, which dropped to 4.3 percent in 2007, will increase to 6 percent between 2009 and 2010.
- It is projected that the yearly inflation, which surpassed the limit of 10 percent at the beginning of 2008, will subside at the end of the year and become: in 2008 – 5.5 percent, in 2009 – 4.8 percent, and in 2010 – 2.6 percent.

Based on the projected growth of the domestic economy, the outlook for Lietuvos Energija operations is positive.



RELIABLE SYSTEM CONTROL



## ELECTRIC POWER SYSTEM CONTROL

**In 2007, like in 2006, Lietuvos Energija carried out the core activities of the transmission system operator, market operator, electricity production and export/import. The company also performed other non-core activities.**

The ultimate objective of the company is to ensure reliable transmission of electricity from power plants and neighbouring power systems to electricity distribution networks, major electricity consumers and power companies in neighbouring countries. As the transmission system operator, Lietuvos Energija is responsible for the capacity balance as well as reliability and safe operation of the entire system.

To improve the quality of control of the electric power system, in 2007 the company:

- Updated the regulations of accident prevention automation;
- Analysed elimination possibilities for blackouts in the Lithuanian power system and updated the black start plan;
- Assessed expansion possibilities for the balance of electricity regulation by using Kruonis PSP;
- With an aim to evaluate technical requirements for the island operation of the Lithuanian power system, assessed measures to ensure operation of the power system under critical conditions.

## ELECTRIC POWER SYSTEM CONTROL IN COOPERATION WITH NEIGHBOURING SYNCHRONOUSLY OPERATING POWER SYSTEMS

Control of the electric power system relies on continuous cooperation and coordination of operations with transmission system operators of synchronously operated power systems in Latvia, Estonia, Belarus and Russia.

The BRELL – a committee for coordination of synchronously operating power systems in Lithuania, Latvia, Estonia, Russia and Belarus – along with five permanent working groups established within the committee and coordinating issues of power systems development, electricity transit, reserve capacities, information technologies, and accident prevention automation and operation – have been steadily performing their assignments.

The Dispatch Centres of the three Baltic States' transmission system operators perform additional coordination of operations directly among themselves. In order to solve issues of parallel operation of the Baltic States power systems, a non-profit organisation BALTSO (the Baltic Transmission System Operators) was established with three permanent working groups coordinating issues of power systems development, information technologies and operation.

Acting as the transmission system operator, the company transmitted 9.7 billion kWh of electricity for domestic needs through its high voltage power lines during 2007.

## BALANCE OF ELECTRICITY TRANSMISSION, MILLION KWH

<b>Supplied to the transmission grid</b>	13367
From power plants of Lithuania	12199
Imported	1168
<b>Supplied from the transmission grid</b>	13367
Supplied to consumers connected to the transmission grid	924
Supplied to distribution networks	8795
Exported	2540
Technical losses in the transmission system	347
Consumption for pumping regime of Kruonis PSP	761

### Physical energy exchange with other countries





● **ELECTRICITY TRANSMISSION PRICE**

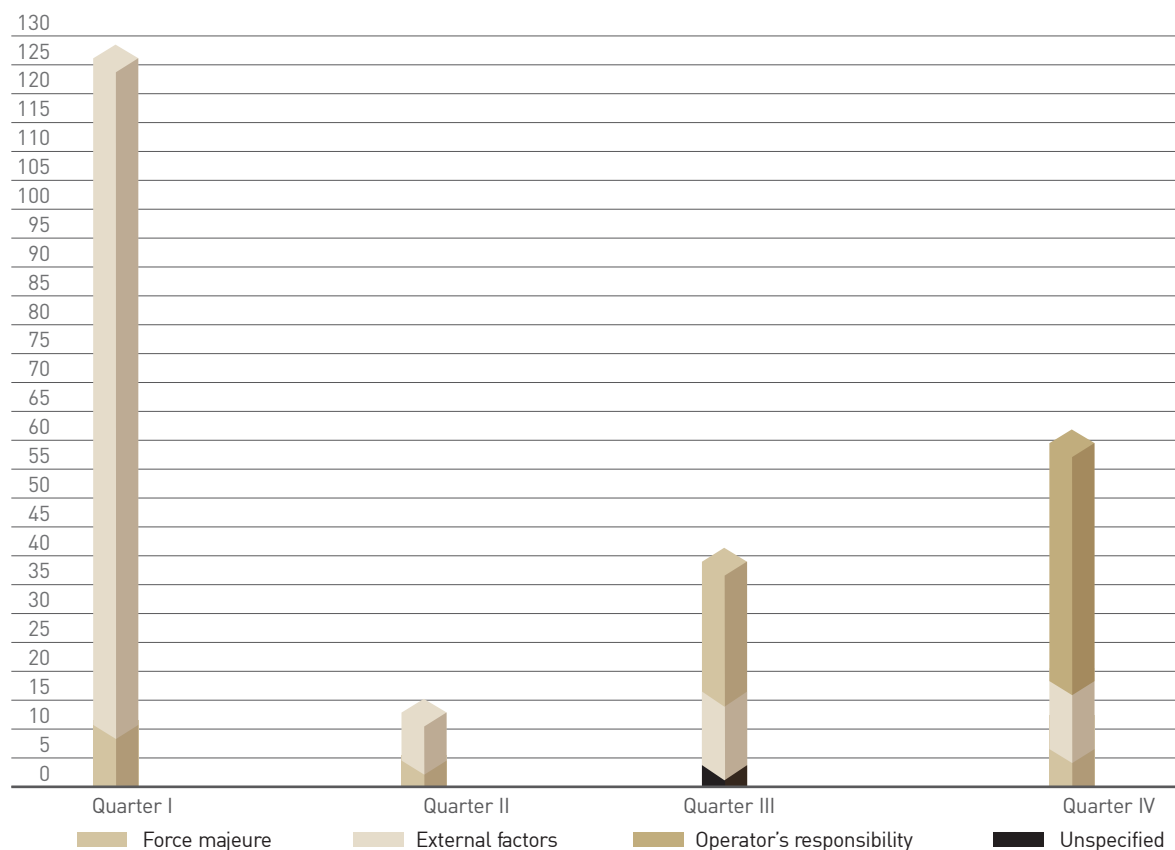
Price caps and prices for the electricity transmission service are set by the National Control Commission for Prices and Energy (NCCPE). Price caps are set for a three-year regulation period and are revised each year subject to effectiveness coefficients, inflation, change of transmission volumes and other factors, which are set by the NCCPE, however are not related to the Company.

Each year the company Board approves the consumer price for the transmission service, which cannot exceed the set price cap. As of 1 January 2007, a new price for the transmission service has been set – LTc 3.58 /kWh, which was LTc 0.11 /kWh higher than in 2006 and for the first time nearly reached the price cap set by the NCCPE.

The transmission service price after the reorganization of the company, i.e. during the period of 2002 – 2007, increased by about 3 percent.

Since 2008, an essential change has been introduced to the transmission price structure – compensation to electricity producers for public service obligations (hereinafter – PSO) became a component of the transmission price. Including the said PSO price component, the transmission price as of 1 January 2008 has been set at a level of LTc 7.4 /kWh.

**Quality of electricity transmission in 2007, average interruption time, sec.**



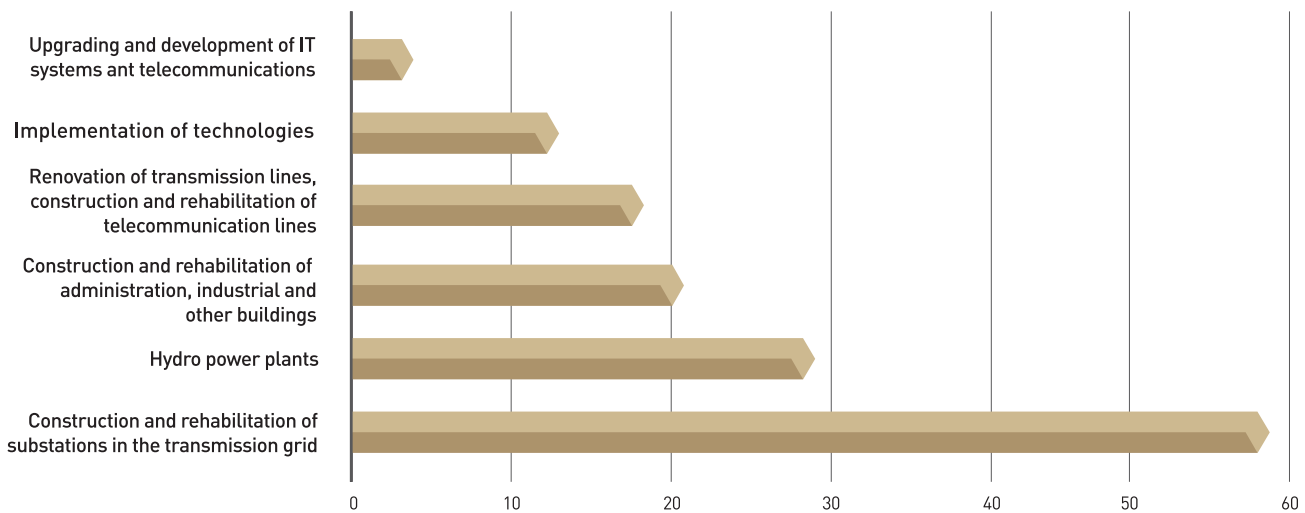
## DEVELOPMENT OF THE TRANSMISSION GRID

### MAJOR INVESTMENT TRENDS

- Rehabilitation and development of the transmission grid
- Implementation of new technologies
- Rehabilitation of hydro power plants

In 2007 investments totalled LTL 152m.

#### Lietuvos Energija investments in 2007, million LTL



### REHABILITATION AND DEVELOPMENT OF THE TRANSMISSION GRID IN 2007

- **The construction of these substations (SS) was completed:**
  - 110 kV Benaičiai SS
  - Connection of 110/10 kV Smeltė SS to the 110 kV network
  - Panevėžys power plant was connected to the 110 kV network

In 2007, the construction of the 110/20kV Benaičiai SS was completed. This substation connected the 16MW wind park to the transmission grid. At present total installed capacity of all wind power plants connected to the transmission grid equals 46MW.

#### The construction of these substations is in progress:

- 110/10 kV Nemunas SS
- 110/10 kV Šventininkai SS
- 110/10 kV Lypkiai SS
- 110/10 kV Ažuolynė SS, 2nd transformer
- 110/10 kV Sudėnai SS

#### The following substations were reconstructed:

- 110/35/10 kV Šilutė SS
- 110/35/10 kV Molėtai SS
- 110/35/10 kV Joniškis SS
- 110/10 kV Žiežmariai SS



**The following substations are under reconstruction:**

- 110/35/10 kV Ukmergė SS
- 330/110/10 kV Vilnius SS
- 110/10 kV Centras SS
- 110/10 kV Šilkas SS
- 110/10 kV Noreikiškės SS
- 110/10 kV Taika SS
- 110/10 kV Migla SS
- 330/110/10 kV Šiauliai SS
- 110/35/10 kV N. Akmenė SS
- 110/35/10 kV Šakiai SS
- 110/35/10 kV Pabradė SS
- 110/10 kV Ignalina SS
- 110/10 kV Gargždai SS
- 110/35/10 kV Kuršėnai SS
- 110/10 kV Merkinė SS
- 330/110/10 kV Klaipėda SS
- 110/10 kV Savitiškis SS

**Electricity transmission lines under rehabilitation:**

- Kaunas – Jonava – Kėdainiai – Panevėžys
- Jurbarkas – Raseiniai – Kelmė – Šiauliai

**Electricity transmission lines under construction:**

- 110 kV overhead line Kretinga – Palanga
- Vilnius – Vilnia – Neris
- Panevėžys – Mūša
- Telšiai – Klaipėda

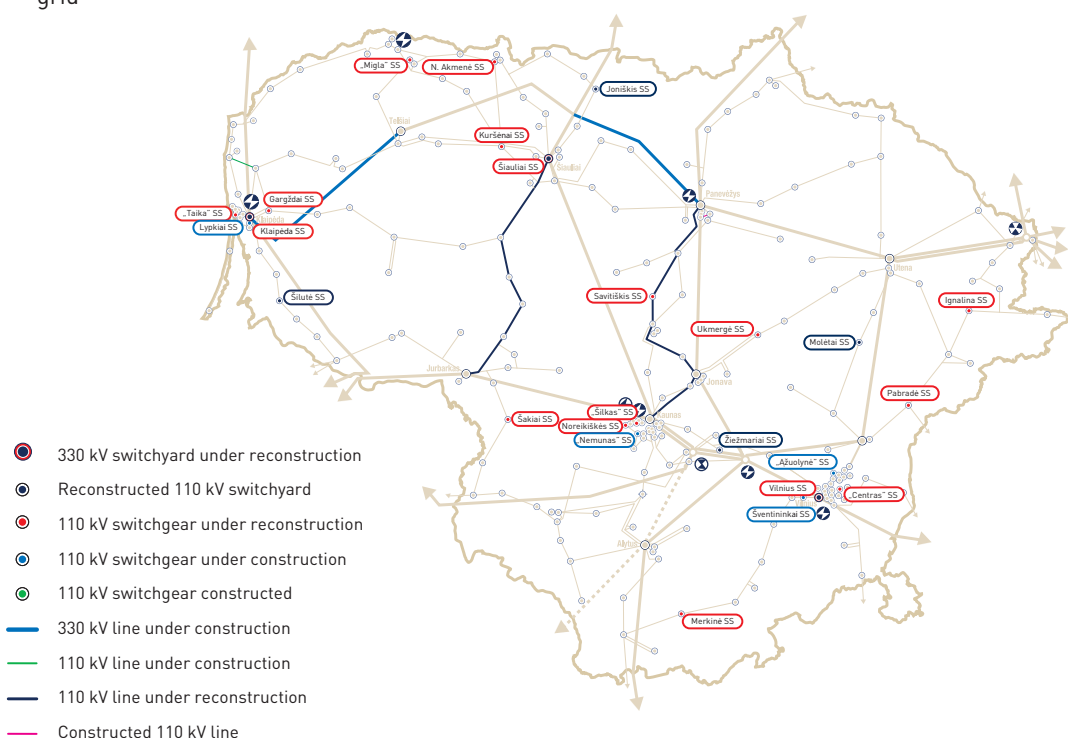
Investments in new technologies include investments in reactive power control and commercial metering equipment.

**Projects in progress:**

- Upgrade of the dispatch control system
- Upgrade of the National Dispatch Centre and the Back-up Dispatch Centre by replacing the existing data base with Oracle
- Implementation of the registration system of transient processes in the transmission grid

● REHABILITATION OF ELECTRICITY TRANSMISSION LINES AND RECONSTRUCTION OF COMMUNICATION LINES

● IMPLEMENTATION OF NEW TECHNOLOGIES



## INTEGRATION

- BALTIC GRID 2025** ● The main objective of this study was to assess the potential development perspectives of the Baltic States' transmission network up to 2025, by ensuring the security of the network operation, the reliability and quality of electricity supplied to consumers, and interconnection possibilities with UCTE (Union for the Co-ordination of Transmission of Electricity) and NORDEL (Organization for the Nordic Transmission System Operators). The study was completed at the end of 2007.

- SWEDLIT PROJECT** ● In 2007, a feasibility study for the interconnection between the power systems of Lithuania and Sweden (Swedlit) financed by Lietuvos Energija and Svenska Kraftnät was undertaken with an aim to assess the possibility for construction of an electric link between the two countries.

The feasibility study is prepared in two stages:

**Stage I** was an analysis of the electricity markets, i.e. the potential impact of a new interconnector on the Scandinavian and Baltic markets. At the same time, in relation to the electricity markets, technical and environmental aspects of the project were assessed. The report on Stage I of the feasibility study was presented in June 2007. The report concluded that the project would positively affect both markets and would be beneficial for the public of both countries. On 5 November 2007, the completion of Stage I and its findings were approved by Lietuvos Energija and Svenska Kraftnät at a meeting in Stockholm, where it was also decided to undertake Stage II of the study.

**Stage II** will cover a more detailed technical assessment based on the findings of the market analysis as well as the possibility to raise finance from the EU funds; An optimal capacity of the interconnector and eligible technologies will be determined, acceptable procedures for implementation of the project will be proposed.

The feasibility study is to be completed in the beginning of 2008.

- THE STUDY ON SYNCHRONOUS INTERCONNECTION OF IPS/UPS WITH UCTE** ● The study is prepared by a consortium consisting of seven power companies connected to the IPS/UPS system (Belenergo, Eesti Energija, Latvenergo, Lietuvos Energija, Ukrenergo, Moldelektrika, RAO UES Central Dispatch Board) and 11 transmission system operators representing nine countries—members of the UCTE (Germany, Belgium, Hungary, Bulgaria, Poland, Spain, France, Slovakia, Romania).

The main objective of this study is to answer the three fundamental questions:

- To assess the feasibility of synchronous operation between the two biggest power systems in Europe – the UCTE and the IPS/UPS;
- To identify the measures to be taken by both parties to achieve this goal;
- To provide estimations of the costs.

Specialists of Lietuvos Energija represent the Lithuanian power system in the study; they are active participants in all working groups of the study which analyse power flows in the transmission grids and make calculations on the dynamic stability. They prepare data for the calculation model, analyse results of the calculations and take part in discussions on these results. The study is to be completed in 2008.



In 2007, the Prime Ministers of Lithuania, Latvia and Estonia signed a Communiqué thereby obligating the transmission system operators of the Baltic States to prepare a feasibility study on the synchronous interconnection with the UCTE by the end of 2008, and to present the report on the schedule and costs of the interconnection.

The Cooperation Agreement among the transmission system operators of the Baltic States – Lietuvos Energija AB, Põhivõrk OÜ (Estonia), Augstsprieguma Tīkls AS (Latvia) and PSE-Operator S.A (Poland) – for the assessment of the feasibility of synchronous interconnection with the UCTE was signed on 30 October 2007. According to the four-party Cooperation Agreement, Lietuvos Energija represents the power systems of the Baltics as the country holding the chairmanship. The pre-feasibility study is to be completed in the beginning of 2008.

In 2007, the transmission system operators Lietuvos Energija AB, Augstsprieguma tīkls AS, Põhivõrk OÜ, Svenska Kraftät (Sweden), Fingrid Oyj (Finland) and PSE-Operator S.A. signed a Memorandum of Understanding on coordination of regional planning in the Baltic Region.

The goals of this cooperation are to establish a coordinated and transparent planning practice among the TSOs of Nordel, Baltso and Poland, and to prepare the plan for coordinated development of regional interconnectors among the Baltic, Nordel and Polish regions with the aim of ensuring sufficient transmission capacities among these regions. Moreover, the goal has been raised to start a long-term discussion among the system planning experts from all countries of the Baltic Sea Region.

- **THE STUDY ON SYNCHRONOUS INTERCONNECTION OF THE BALTICS WITH UCTE**

- **REGIONAL PLANNING**





## MARKET OPERATOR'S ACTIVITIES

**The electricity market in Lithuania is administrated by the market operator – Lietuvos Energija, which performs:**

- Registration of bilateral agreements concluded between wholesale market players;
- Collection of bids for trade at the auction and their ranking by setting the priority of sales;
- Recording the trading transactions concluded by bilateral contracts, and at the auction;
- Dissemination of trading results to market players and supervisory authorities.

Trade in electricity is carried out in the domestic market and through electricity export and import. In Lithuania, electricity is traded at:

- The **wholesale electricity market**, by concluding bilateral sale-purchase agreements between electricity producers and suppliers. They can buy or sell deficient or surplus quantities of electricity at the auction;
- The **retail electricity market**, by concluding bilateral sale-purchase agreements between final consumers and suppliers.

In the Lithuanian wholesale electricity market, suppliers trade in the following three types of electricity:

**Contractual electricity** which is bought and sold by direct bilateral contracts between producers and suppliers;

**Electricity complying with public service obligations (PSO).** Volumes (quotas) for producers of this type of electricity are set by the Ministry of Economy, and prices are set by the National Control Commission for Prices and Energy.

**Additional electricity** which is traded at the auction among producers (if the quantities of contractual electricity and electricity complying with public service obligations are insufficient to cover the domestic demand).

In 2007, in the Lithuanian wholesale electricity market, suppliers bought 10.76 billion kWh of electricity, an increase of 4.7 percent year-on-year; 6.45 billion kWh of electricity were purchased from producers by concluding bilateral agreements, 1.91 billion kWh – by carrying out public service obligations, and 2.4 billion kWh of additional electricity were purchased at the auction administrated by the market operator.

Suppliers purchased electricity complying with public service obligations as well as additional electricity through the market operator.

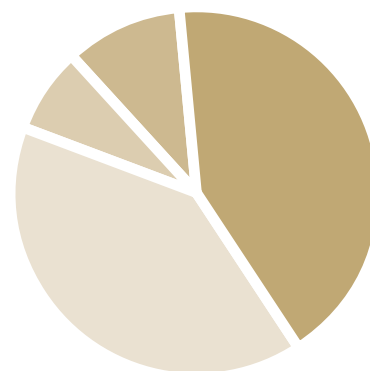
As of 1 January 2008, electricity complying with public service obligations has not been traded on the market – funds for compensation of this service are collected by rendering the electricity transmission service.

In 2007, as in 2006, eight companies with electricity suppliers' licenses and ten companies with permits for production were actively trading in the wholesale electricity market.

By concluding direct bilateral contracts, the largest quantity of electricity (6.0 billion kWh) was sold by Ignalina NPP, and purchased by the distribution companies – Rytų Skirstomieji Tinklai AB (2.8 billion kWh) and VST AB (2.6 billion kWh).

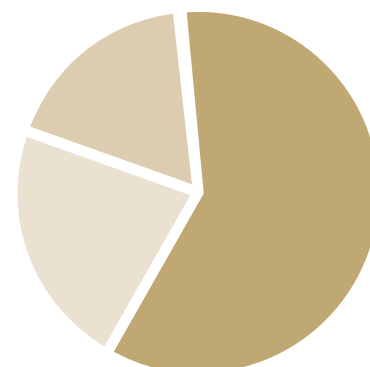
**Market share by electricity market players in 2007**

- Rytų Skirstomieji Tinklai
- VST
- Lietuvos Energija
- Other suppliers



**Electricity sold in the wholesale market in 2007**

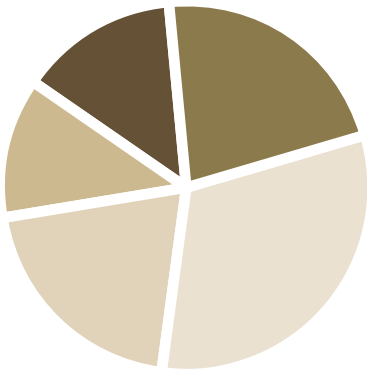
- Contractual electricity
- Additional electricity
- PSO electricity



**ELECTRICITY PRODUCTION, EXPORT/IMPORT**

**Electricity export in 2007 by countries**

- Belarus
- Estonia
- Finland
- Latvia
- Russia



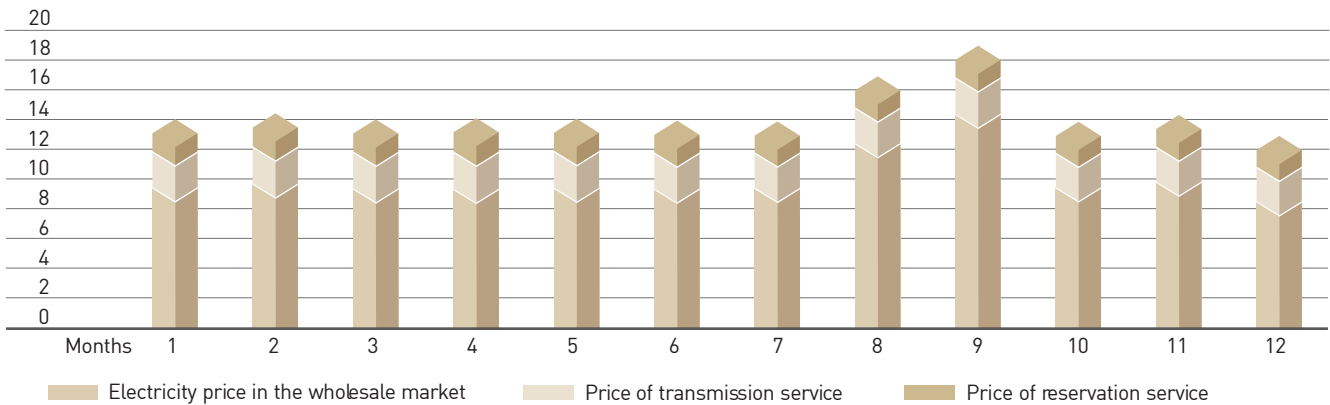
● In 2007, the total output of Lithuanian power plants to the transmission grid amounted to 12.2 billion kWh.

Lietuvos Energija produces electricity in the company's two power plants – Kaunas Hydro Power Plant and Kruonis Pumped Storage Plant. These power plants are operated as integral parts of the electricity transmission system; the electricity generated by them is mostly used for compensation of the company's technological losses and ensuring the balance between generation and consumption. These power plants supplied the transmission grid with 0.86 billion kWh of electricity during the reported period, which accounted for approximately 7 percent of the entire electricity supplied in the country.

In 2007, electricity imported from other markets was 1.17 billion kWh, domestic consumption was 11.0 billion kWh, and sales to foreign markets were over 2.5 billion kWh.

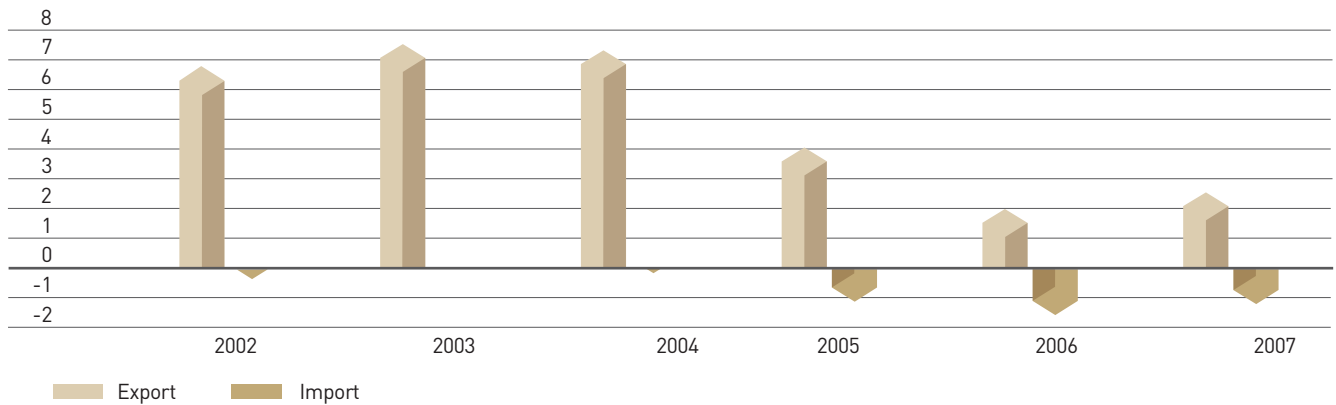
Export volumes represented an 11 percent increase year-on-year, although it has been projected that export volumes will drop in 2008 due to tendencies of growth in domestic consumption and new electricity exporters emerging on the market. The most significant change in the structure of export is due to the fact that as of 2007, in addition to traditional export links with Russia, Latvia and Estonia, electricity has been traded with Scandinavian countries via the Estlink cable.

**Average price structure of electricity and transmission service for consumers connected to the transmission grid, LTc/kWh**

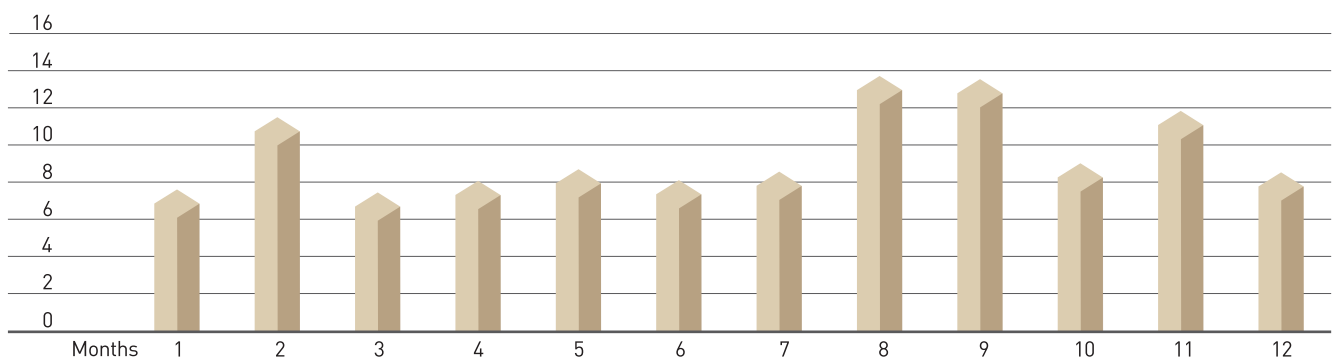




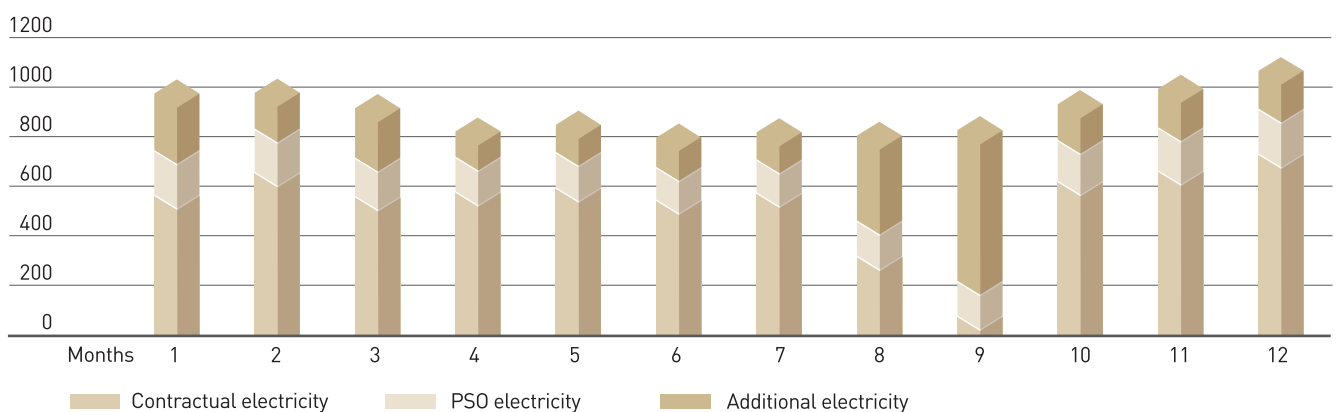
### Electricity export and import, TWh



### Price of additional electricity purchased by suppliers\*, LTc/kWh



### Electricity sales by type\*, million kWh



\* Electricity complying with public service obligations (PSO) is purchased by the market operator from power plants, the generation whereof is included in the list of public service obligations, and sold to all suppliers. Quotas for producers of this type of electricity are set by the Ministry of Economy, and prices are set by the National Control Commission for Prices and Energy. Part of this electricity is purchased by public suppliers from producers connected to the distribution networks of a certain region.

Contractual electricity is bought and sold by direct bilateral contracts signed between producers and suppliers.

Additional electricity is purchased by the market operator and sold to suppliers and the transmission system operator if the quantities of contractual electricity and electricity complying with public service obligations are insufficient. Additional electricity is sold at the auction arranged for producers by the market operator.



INNOVATIONS



## INFORMATION TECHNOLOGIES AND TELECOMMUNICATIONS

- **Implemented**

A system for generation of reports on the transmission system operator's energy flows—which replaces the presently calculated and compiled reports in MS Excel format and provides market players with data on actual energy flows—has been implemented. This system will not only accelerate the dissemination of information to all market players, but will also ensure the security and reliability of this information.

In order to accomplish efficient management and storage of Kruonis PSP correspondence and legal documents, an electronic data management system was implemented which is suitable for centralised preparation, storage and management of electronic documents and digital duplicates of their hardcopies; and is also suitable for accomplishment and supervision of tasks related to these documents, including automation and standardization of processes of document management and handling.

- **Underway**

The project for implementation of a new version of the energy management system XA/21 was successfully continued.

- **Improved**

The reliability and efficiency of all systems were enhanced by implementing development and testing environment, and cluster-based solutions.

- **Upgraded**

The REVIS application system developed for management of operation and maintenance tasks was upgraded and improved while taking into consideration requests of system users and changes in processes.

In 2007, Lietuvos Energija implemented the following infrastructural projects:

- In the three flows of the SDH network, the data transmission speed was increased from 7.5 Gbit/s up to 17 Gbit/s.
- A back-up ring with a speed of 1 Gbit/s was installed in the G-Ethernet network to ensure reliability of data flow transmission.

At the end of 2007, the project for expansion of Vilnius data centre and telecommunications equipment premises was completed. A modern monitoring system for security and access control was installed in the data centre. The premises comply with Tier 3 requirements (according to the TIA 942 standard). The new dispatch control system GE Energy XA/21 was installed in the new data centre. The project for expansion of the data centre enabled an increase of 30 percent in the scope of collocation services to external customers.

Lietuvos Energija installed a 10 Gbit/s data transmission channel connecting the National Internet Exchange and the internet node at Lietuvos Energija. The channel was installed using two separate fibre optic routes, thus ensuring a high reliability of service. It was the first project of this type to be completed in Lithuania.

- **INFORMATION SYSTEMS**

- **DEVELOPMENT OF INFRASTRUCTURE**

- **DEVELOPMENT OF SERVICES**



## THE MILESTONES OF THE PROJECT FOR CONSTRUCTION OF A NEW NUCLEAR POWER PLANT

Rapid development of the Lithuanian economy, the planned closure of Ignalina Nuclear Power Plant in 2009, dependence on imports of primary energy resources from a single source, and increased prices of fossil fuels have forced Lithuania to respectively adjust its energy policy. The updated National Energy Strategy, which came into effect on 27 January 2007, provides for the necessity to ensure the continuity, succession and development of nuclear energy and to start operation of a new regional nuclear power plant in order to satisfy the demand of the Baltic States and the entire region.

On 28 June 2007, the Seimas (Parliament) of the Republic of Lithuania passed the Law on the Nuclear Power Plant, the validity of which was promulgated by the President on 4 July 2007. By order of this document the Seimas gave its approval for construction of a new nuclear power plant and designated Lietuvos Energija, which had expressed a private initiative to invest in the project, to act as the national investor.

The milestones accomplished by Lietuvos Energija which has been carrying out preparatory works for the project of the new nuclear power plant (NNPP) in Lithuania:

Since April, specialists of the company have been participating in the legislation processes: in cooperation with experts from the State Nuclear Power Safety Inspectorate (VATESI), preparation of the concept of new Licensing Rules for Activity in the Nuclear Energy Sector was started, and guidelines for the law amending the Law on Nuclear Energy of the Republic of Lithuania were drafted as were guiding principles for the draft law amending the Law on Enterprises and Facilities of Strategic Importance to the National Security of the Republic of Lithuania and other Companies Relevant to National Security.

● **APRIL**

The Agreement with the consortium consisting of POYRY ENERGY OY (Finland) and the Energy Institute of Lithuania on preparation of the Environmental Impact Assessment (EIA) Programme of the new nuclear power plant was signed.

● **MAY**

The project for the design of industrial facilities adjacent to the construction site of the new nuclear power plant was initiated.  
The website of Lietuvos Energija was expanded by making the NNPP project public.

● **JULY**

As of August, the EIA programme has been presented to the public of Lithuania and neighbouring countries and state authorities – the EIA subjects.

● **AUGUST**

As of September, specialists of the company have been taking part in the activity of the Working Group – established by the Minister of Education and Science and the Minister of Economy – for the development of the national programme for preparation of nuclear energy specialists and measures of implementation of the programme.

● **SEPTEMBER**

The Agreement on Consultancy Services for preparation of the procurement documents for the project of the new nuclear power plant was signed with Empresarios Agrupados Internacional (Spain).

● **OCTOBER**

As of October, specialists of the company have been participating in the coordination of territorial planning documents: analysis of the interface points between the master plan of the territory of the Republic of Lithuania and the territorial planning for the construction of the new nuclear power plant was completed; the Resolution of the Government of Lithuania amending the approval of the plan of measures for implementation of the master plan of the territory of the Republic of Lithuania was drafted.

The Agreement with Poyry Energy OY (Finland) in relation to the information technologies strategy for the project of the new nuclear power plant was signed.

**NOVEMBER**

- Having taken into consideration the proposals of the public, and having conciliated the EIA programme with all subjects of the EIA, the programme was handed over to the Ministry of the Environment. The Ministry approved the EIA programme on 15 November 2007.

An open international tender for preparation of the EIA study and report was announced.

The Agreement was signed with Pramprojektas AB on the location and layout of the NNPP industrial construction site and preparation of design solutions.

**DECEMBER**

- Between November and December, meetings were held with suppliers of modern technologies for nuclear reactors: General Electric – Hitachi (GEH), AREVA NP, Westinghouse Electric Company LLC and Atomic Energy of Canada Limited (AECL) with the aim of gaining knowledge about reactor technologies available on the global market, and in preparation for the tender on procurement of technology for the new nuclear power plant.





CITIZENSHIP



## SOCIAL RESPONSIBILITY

Lietuvos Energija is a company with deep traditions of social responsibility in various domains: relations with employees, society and the environment. Company operations are substantiated by a balance of economic, ethical and ecological values.

Economic responsibility is based on the perception of importance of company operations for the economy of the country. In order to achieve compatibility with the highest operational standards applied in the contemporary energy industry, the company implements its strategic goals and thus guarantees the stability of the entire Lithuanian economy and the welfare of its people.

Ethical responsibility is based on the company's concern over its employees, their families, communities and society as a whole. Lietuvos Energija is open and deferential to people.

Ecological responsibility is based on respect for nature through harmony with the environment and conservative use of natural resources.

Reconciliation of these criteria is the formula for the company's sustainable development.

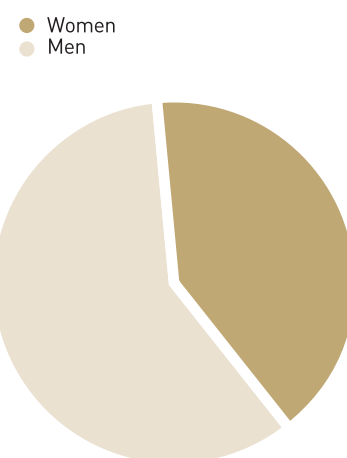
## PERSONNEL

Lietuvos Energija has high regard for the competence and loyalty of its personnel. The turnover of company employees is negligible, the average period of employment being approximately 16 years.

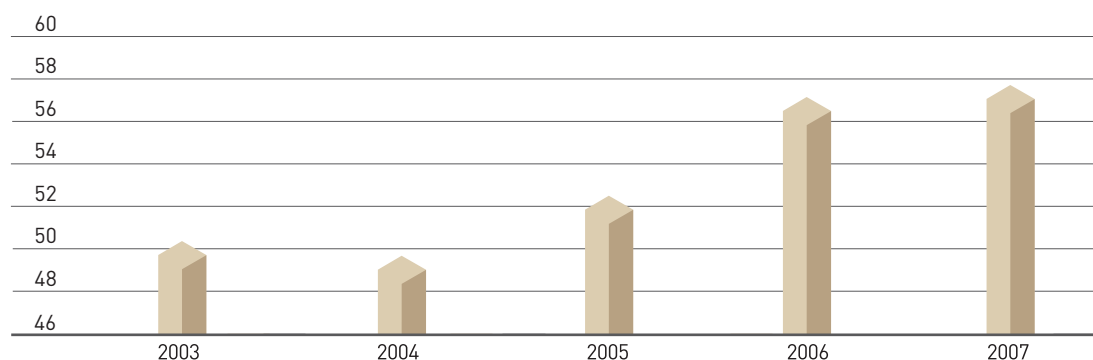
We are satisfied with the growing efficiency of our workforce – despite mounting responsibilities, the number of employees remains unchanged. In the reported year, the company employed about 1140 people. Their average age is about 45, with one third of employees under 40. About 70 % of employees are engineering and office staff, and 30% are labourers. Almost 70% of employees have a university degree. The majority of employees with a university or college background work at the company headquarters or in the transmission divisions. 70 employees are studying at various higher education establishments while working.

Lietuvos Energija employees are actively involved in generating ideas and improving company activities; there is a continuous dialogue between employees and management staff. Various surveys are carried out where the employees have the opportunity to express their views on many subjects. The results of surveys are used to identify the most sensitive aspects of intercommunication, and to draw up action plans for improvement of the situation.

**Proportion of men to women working at head office of the company**



**Growth tendencies in number of employees with university degree, %**



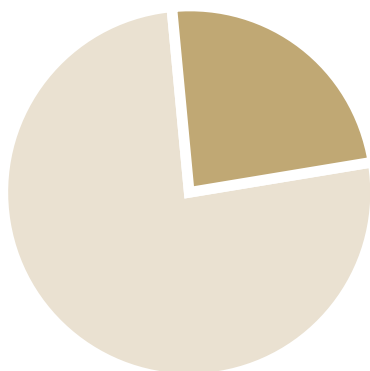
Lietuvos Energija abides by international and national laws prohibiting discrimination on the basis of race, origin, religion, sex, age, disability, or membership in a political organization or union.

● **EQUAL OPPORTUNITIES**

The specifics of company operations, alongside the fact that electric engineering professions are usually taken up by men, determine the proportion of men to women working at the company, which is 76 percent and 24 percent respectively. At head office the proportion of men to women is 41 percent and 59 percent respectively.

### Proportion of men to women working at the company

- Women
- Men



### Professional unions – representatives of the employees' interests

Four professional unions are functioning within the company; they are united by the professional unions' representative office. The company management has a continuous and meaningful dialogue with the professional unions. They cooperate in solving social issues and aspects of improvement of working conditions; they take part in joint seminars and projects, and compatibly form the values and the code of ethics of the company. The dialogue is embedded in the Collective Agreement, which is concluded over a two-year period. The purpose of the Agreement is to secure the efficient operation of the company, to improve safety at work, labour payment, and economic and social conditions.

On the initiative of the company's management, the Collective Agreement regulates numerous aspects of social care. Employees are entitled to additional paid holidays for marriage, compassionate leave, or maternity leave. Moreover, additional leave is awarded for uninterrupted standing within the company, allowances are paid, and presents are given to employees' children at Christmas. Employees' cultural and sports activities and recreational facilities are also supported.

### TRAINING

- Lietuvos Energija pays special attention to improvement of qualifications for employees and is a leader among Lithuanian companies as regards funds assigned for improving qualifications, which is implemented in three directions:
  - Compulsory training (certification, examinations, courses for obtaining rights and permits to perform specific jobs);
  - Improvement of professional qualifications (training relevant to specific job responsibilities, upgrade of equipment, changing technologies, etc.);
  - Improvement of personal skills and competencies (seminars for leadership, management, communication, self-help skills).

In 2007, approx. LTL 0.9m was spent on employees' qualification improvement (including more than LTL 0.5m for compulsory training and improvement of professional qualifications). On average, four man-days were spent training each employee. In implementing investment projects, company specialists have the possibility to gain experience in foreign power companies and improve their qualifications. University studies were financed for 15 employees. Special attention was focused on improvement of business-related competences for the top management of the company.

### TRADITIONS

- **Autumn's Energy** is a traditional company-wide contest which summons up nearly one thousand Lietuvos Energija employees every year at the Dubingiai Seminar and Conference Centre, situated on the picturesque shore of the Asveja lake. During the event, sports contests and team competitions are arranged. The event has an informal and unofficial atmosphere.

Every year, in June, the Professional Unions Federation of Energy Industry arranges a sports contest for families of energy industry employees. Lietuvos Energija supports the event and assigns funds for the participation of employees' families.

For several consecutive years, the company has arranged New Year celebrations for employees at the National Opera and Ballet Theatre.

The company has a folklore group **Riduola**, which was established in 1986. **Riduola** takes part in concerts arranged both in Lithuania and abroad. In 2007, they recorded a CD called **Užteka teka šviesi sauliula**.

## SAFETY AT WORK AND OCCUPATIONAL HEALTH

Lietuvos Energija operates a high voltage grid, therefore works undertaken by its specialists have to be coordinated and performed with the utmost professionalism. Lietuvos Energija maintains its leadership in safety at work and occupational health practices in the electricity sector.

- In 2007, Lietuvos Energija prepared for and implemented the OHSAS 18001 certificate – the system for assessment of professional health and safety. This certificate provides evidence that Lietuvos Energija’s management system has been verified against the best practice standard and complies with its requirements.
- To ensure operation of sophisticated technical equipment by highly professional specialists, priority is given to training and qualification improvement of managers and employees. Principles of occupational health and safety at work were integrated into every project implemented in 2007, either during maintenance periods or throughout the entire life-time of equipment.
- All operational equipment undergoes regular maintenance and repairs in line with advanced global practices. When equipment suffers breakdowns, technological faults are inspected and analyzed and measures for improving the situation are projected.
- Safety requirements equivalent to those applicable to Lietuvos Energija employees are also imposed on business partners working on company facilities. Every year the quantity of safe and reliable equipment is increased, safety and reliability characteristics of procured equipment become stricter, and detailed technical documentation is demanded from suppliers and contractors. In 2007, meetings with contractors were held on issues of safety and quality of work, sites were inspected, and training courses for contractors were arranged.
- In 2007, at Lietuvos Energija request, an instructional film was made regarding health and safety requirements to be observed when working with a PC.
- The occupational health division of the company is provided with modern equipment which enables provision of first aid in case of accident or illness. Staff of the occupational health subdivision have undergone relevant training and have long term experience. On request, all employees of the company are vaccinated against influenza and encephalitis.

## PROTECTION OF THE ENVIRONMENT

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

In March 2007, Lietuvos Energija started the environmental impact assessment (EIA) on the construction of the new nuclear power plant in Lithuania. The EIA on the construction of the new nuclear power plant in Lithuania is carried out in accordance with the Law on the Assessment of the Impact on the Environment of the Planned Economic Activity, the United Nations' Convention on Environmental Impact Assessment in a Transboundary Context (Espoo, 1991) and other valid legal acts. On 15 November 2007, the Ministry of Environment of the Republic of Lithuania approved the EIA programme. The EIA study will be conducted and the EIA report will be drawn in line with the EIA programme.

### WASTE MANAGEMENT

- Management of hazardous waste collected at Lietuvos Energija is organised by hiring specialised licensed companies for this purpose. The entire process of utilization of all hazardous waste from its collection to disposal at recycling companies is continuously supervised and controlled by company specialists.

The main types of hazardous waste contain transformer oil and other waste resulting from the use of the oil (waste water contaminated with transformer oil, sludge collected in water treatment facilities and contaminated with oil products, quantities of oil which was not suitable for further use, emulsion of compressor oil and water, contaminated absorbents and wipes); other types of waste include accumulators, luminescence lamps, tyres, etc..

In 2007, 138 tonnes of hazardous waste were handed over for processing, 43 tonnes of reinforced concrete and porcelain insulator waste to be processed for production of break stone which is used in road construction, 229.3 tonnes of ferrous scrap metal and 2.9 tonnes of non-ferrous scrap metal. The company also sorts household waste by separating paper and cardboard which is sent for recycling.

### WASTE WATER MANAGEMENT

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

In 2007, at Kruonis Pump Storage Plant, operation of sewerage water treatment facilities to the full capacity of 40 m<sup>3</sup>/day was started, technological schemes and instructions required for waste water treatment were finalised, a computerised monitoring system for management of household waste water and industrial waste water treatment facilities was implemented, and additional equipment for collection of oil products was installed in the main waste water outlet No.2.





- A new integrated pollution prevention and control permit was revised and issued to Alytus substation and Dubingiai water treatment facilities.
- Calculations of emissions from stationary and mobile emission sources, and stocktaking of taxable products and packing materials and chemical substances are continuously performed; the relevant taxes are calculated and reports are submitted.
- The procedure for safe use and stocktaking of chemical substances was established; this process is continuously supervised.
- To prevent poaching, the spillway dam was fenced and video monitoring equipment was installed at Kaunas Hydro Power Plant.
- A storehouse of hazardous chemical substances was constructed at Panevezys substation.
- Part of the 110kV overhead lines was replaced with underground cable – this improved the landscape.

In implementing the investment projects, the environmental protection requirements are set: an environmental impact assessment is requested for the designed electricity transmission lines; the contractors are obligated to handle and dispose of waste collected in the process of construction.

As of 2007, in order to advance protection of the environment, Lietuvos Energija has started implementing the requirements of “green procurement”. These requirements ensure that the procured product or service has less or no hazardous, toxic or otherwise unsafe substances, that it is durable and functional, that the environment is less polluted in the process of production and that upon expiration of its life-time it will be acceptable for recycling or suitable for second-hand use; these criteria have already been applied in procuring materials for hardware operation and transformer oil.

● **MEASURES TO ENSURE A SAFE ENVIRONMENT**

● **GREEN PROCUREMENT**

## SPONSORSHIP FOR CULTURE, SCIENCE AND SPORTS

Lietuvos Energija is a regular sponsor of educational, cultural and sports institutions, projects and initiatives. In 2007, LTL 1 120 000 was spent on sponsorship in these areas.

Year by year Lietuvos Energija has been supporting the National Opera and Ballet Theatre, the Lithuanian Musicians Support Fund, and other musical projects.

The company collaborates with the Artists Association Gallery in propagation of modern arts. Pictures, sculptures, installations, and other objects of fine art are exhibited in the head office of the company.

The company not only supports active branches of sports – basketball, football, handball, and motorsports – but also veterans' sports clubs.

### TECHNICAL LIBRARY AT LIETUVOS ENERGIJA

- A unique collection of electric engineering and energy documents has been collected in the repositories and archive of the technical library of Lietuvos Energija. This information is stored in various formats – books, photo documents, electronic files, etc.. The information system MegaKnyga has been implemented in the library which has computerized many conventional job processes usually carried out by a librarian. Currently the system database contains more than 54,000 entries.

On recognizing the uniqueness of the technical library, it was decided to make it accessible to the public. On request, library books and other information resources may be used in the reading room of the library. Moreover, the library may be used by employees of other companies or offices, provided they have concluded a service agreement with Lietuvos Energija. They get the same services which are rendered to employees of Lietuvos Energija.

### LIETUVOS ENERGIJA – A STAKEHOLDER OF THE ENERGY MUSEUM

- On 13 July 2006, the Ministry of Economy, the Business Support Agency of Lithuania and the Energy Museum of Lithuania signed a Financial Support Agreement for the project Reorganization of the Energy Museum of Lithuania into the Technical Museum of Lithuania. The project's aim is to refurbish the first Vilnius Power Plant building – a site of historical and cultural heritage – for the purpose of tourism. The project is partly financed by EU structural funds. After its completion, the project will enable the industrial technical site, which is also valuable from a historical and educational point of view, to be preserved. It will become a centre of science, culture and tourism. After reconstruction, the museum will be expanded from 800m<sup>2</sup> to 5230m<sup>2</sup>. The project is expected to be completed by 1 September 2008.





INCREASING VALUE

## OVERVIEW OF OPERATIONS

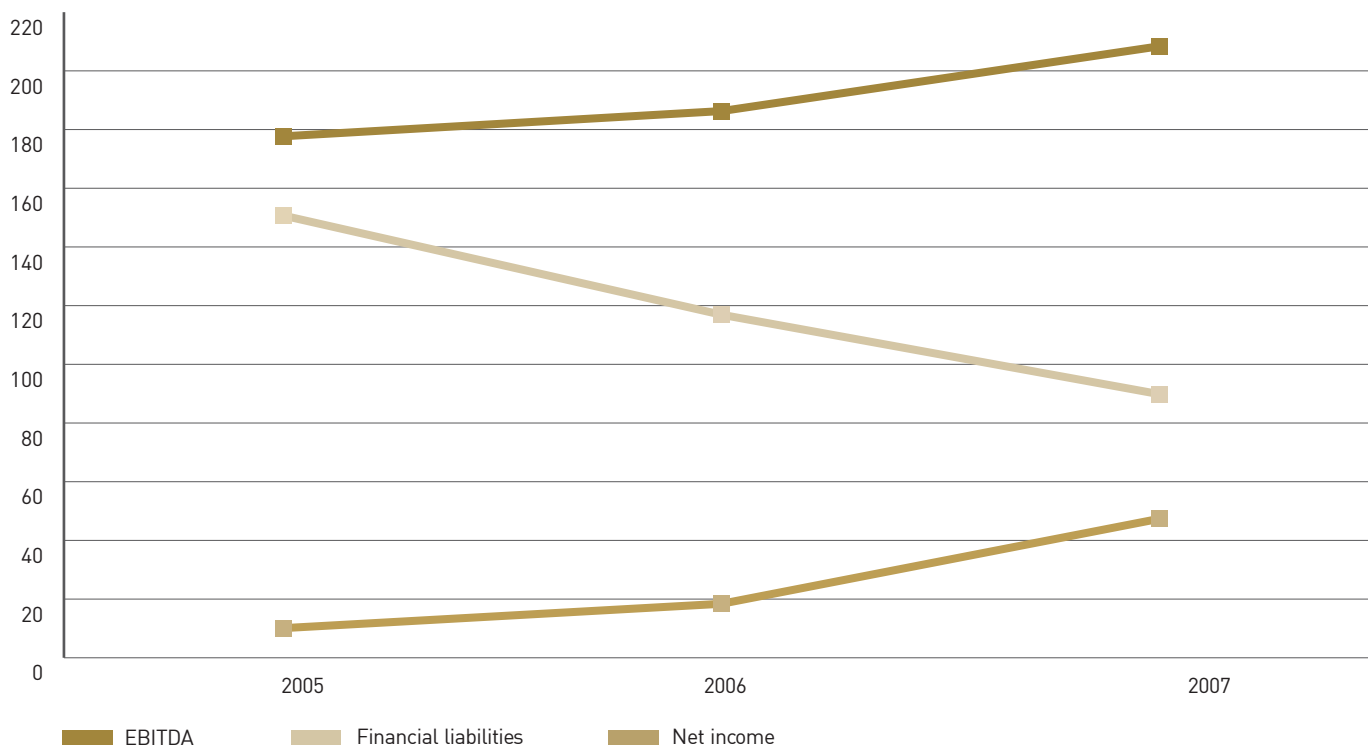
On the grounds of legal acts adopted in Lithuania in recent years, there has been a gradual opening of the electricity market, and attempts have been made to form a competitive environment in the fields of electricity generation and supply.

Lietuvos Energija, performing exclusive monopolistic activity within the Lithuanian territory (electricity transmission, provision of system services), is little influenced by changes in the electricity market. The company was positively influenced by the country's economic growth and respectively – the growth in electricity consumption. The goal of the company is to ensure the reliable operation of the power system. In 2007, the country's power system had no major disruptions.

As of 31 December 2007, the company has had direct control over its three subsidiaries: Energetikos Pajegos UAB, Kauno Energetikos Remontas UAB and Kruonio Investicijos UAB. Lietuvos Energija holds 100 percent of shares of the mentioned companies (the company and its subsidiaries hereinafter are referred to as the "Group").

Indicators of financial operations of the Group's companies in the reporting financial year improved, and the companies operated profitably.

### EBITDA, net income and financial liabilities





## Revenues

In 2007, the sales revenues and other income of the Group reached LTL 1200.3m, i.e. almost 20 percent higher than in 2006. Increased revenues may be accounted for by the higher price of electricity complying with public service obligations and the higher price of exported electric energy.

The major part of the structure of revenues – 50 percent of total revenues – was represented by electricity sales in the domestic wholesale electricity market. In performing the most important activity of the company – the transmission system operator's functions, the company earned LTL 365.5m, or 30 percent of total revenues. In comparison with 2006, the latter category of revenues grew by 4.8 percent due to the increased volume of transmitted electricity and higher transmission price.

Sales revenues of Kauno Energetikos Remontas UAB, including sales to the Group companies, went up from LTL 43.1m in 2006 to LTL 70.9m in 2007, an increase of 64.3% year-on-year. The majority of services rendered and manufactured products were supplied to the domestic market (96 percent), 4 percent were exported. The subsidiary directly rendered services to the patronizing company worth LTL 5.2m.

Energetikos Pajėgos UAB mainly rendered services to the Group. The revenues of this subsidiary totalled LTL 2.2m. Kruonio Investicijos UAB did not earn any revenues.

Revenues of the Group from non-core operations reached LTL 23.5m; the bulk of this – LTL 19.7m was earned from rendered information technologies and telecommunications services, including LTL 11.9m earned for data transmission services.

## Costs

The costs of the Group in 2007 were LTL 1134.5m.

The majority of costs (LTL 697.1m or 61 percent) was incurred for purchases of electricity, including purchases of electricity for public service obligations. Depreciation and amortization costs were LTL 146.1m; the costs of purchasing cold and operating reserve from other power plants were LTL 82.4m.

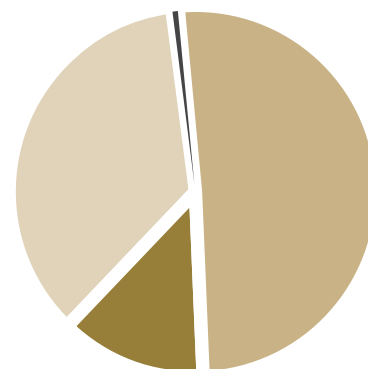
Costs incurred by subsidiaries of the company represented an insignificant portion of the total cost structure of the Group – 5.8 percent.

In 2007, as compared to 2006, the variable costs of the company (the costs for purchasing electricity and reserve capacity from producers) grew by 20 percent due to the higher price of electricity for public service obligations as well as higher export volumes; relatively fixed costs incurred by the company dropped by nearly LTL 5m.

## INCOME AND COSTS

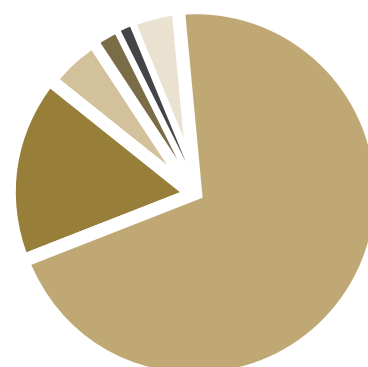
### Structure of operating income in 2007

- Electricity sales in internal market
- Electricity export
- Electricity transmission
- Other income



### Structure of operating costs in 2007

- Purchased electricity
- Depreciation
- Labour costs
- Operation and maintenance
- Taxes
- Other costs





**PROFIT** ● In 2007, according to the International Financial Reporting Standards, the Group earned LTL 60.2m in pre-tax profit – net profit was LTL 48.4m; profit before interest, taxes, depreciation and amortisation (EBITDA) was as high as LTL 211.8m (it grew by LTL 22.8m during the year).

The Company earned LTL 47.4m in net profit, with Kauno Energetikos Remontas UAB earning LTL 1.4m, and Energetikos Pajėgos UAB – LTL 0.12m (the profit of the subsidiaries includes revenues for services rendered within the Group).

The company's profitability indicators in 2007, as compared to 2006, improved: return on equity increased by 1.3 percent, return on assets – by 1 percent, and profit before interest, taxes, depreciation and amortisation (EBITDA) rose by LTL 22.1m, or approx. 12 percent.

The profitability of the company is not very high; this can largely be accounted for by the specifics of the company's operations – the core activities of the company are regulated; the minimum rate of profit is included in the price of the electricity transmission service; between 2005 and 2007 the augmentation of amortization and depreciation costs due to revaluation of assets at their fair value was not included in the price.

**DEBTS AND LIABILITIES** ● In 2007, the company did not enter into any new loan agreements, and to balance short-term discrepancies in the cash flows, it used existing credit lines and overdrafts. During the year, Lietuvos Energija's total financial liabilities decreased by LTL 27.1m and as of 31 December 2007 they were LTL 89.8m. The average interest rate on the company's borrowings in 2007 was 4.42 percent.

Moreover, under the guarantee agreement Lietuvos Energija AB guaranteed 25 percent (LTL 79.8m) of Nordic Energy Link AS liabilities to the banks.

The decreasing debt to financial institutions reduced the debt ratio (financial liability/equity), thus the level of company's debt remained fairly low. The majority of assets are financed by the company's own capital, and the latter was four times greater than the total liabilities. The coverage ratios of loans and interest were significantly above 1, i.e. the company's yearly cash flows enabled to accomplish full coverage of financial liabilities.

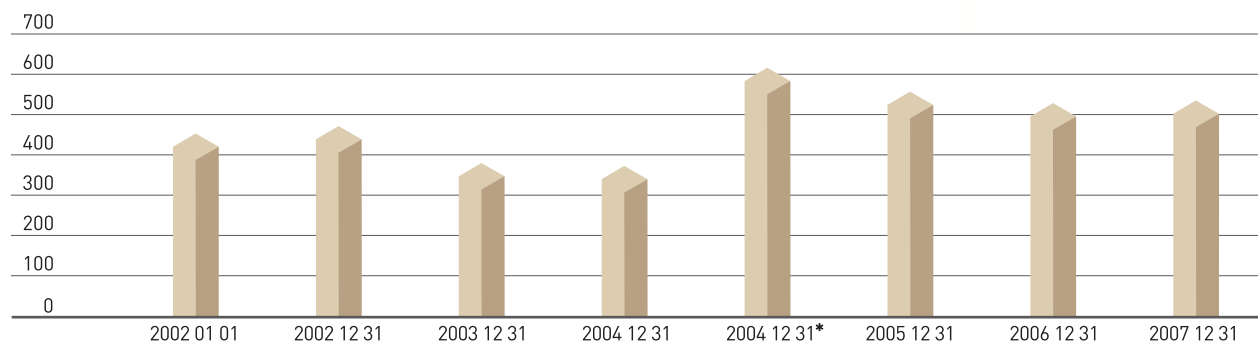
**MANAGEMENT OF FINANCIAL RISKS** ● By concluding credit contracts, the company follows the principle that the amount of liquid assets, unused credit lines and overdrafts should be sufficient to cover current liabilities, including a current portion of long-term borrowing. At the end of the reported period the company's net working capital was negative and amounted to – LTL 49m (at the end of 2006 it was – LTL 80.3m), but at the end of the reported period the company had LTL 71.1m of undisbursed overdrafts and credit lines.

To minimise the foreign exchange risk, the company concluded credit contracts only in Euros and Litas. The currency of payment according to the selling/purchasing contracts was also denominated in Euros and Litas.

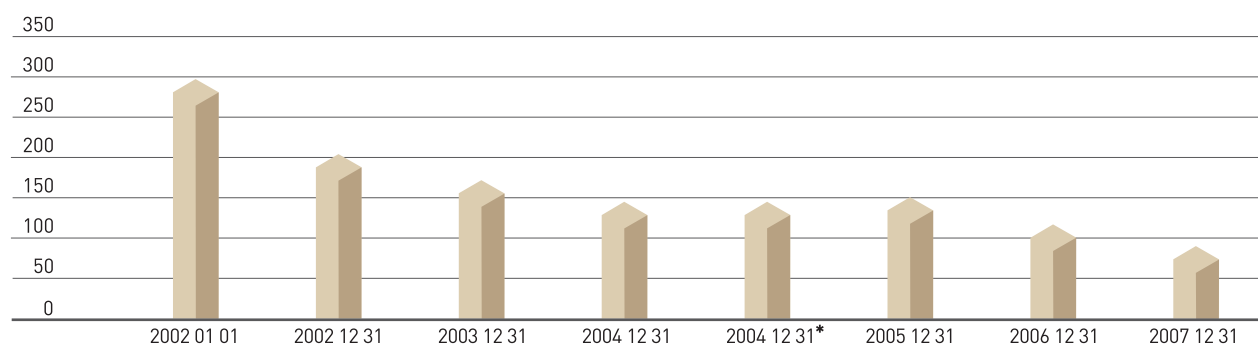
In order to minimise the risk of interest rate fluctuation, the company set a goal of taking no less than 50 percent of all loans at a fixed interest rate, with the remaining portion at a floating interest rate. At the end of 2007, 44 percent of the company's financial liabilities were at a fixed interest rate, and 56 percent – at a floating interest rate. To manage the risk of interest rate fluctuations, the Company concluded an interest rate swap transaction at the end of 2003 with the Lithuanian branch of Nordea Bank Finland Plc., which was fully realized on June 30, 2007.



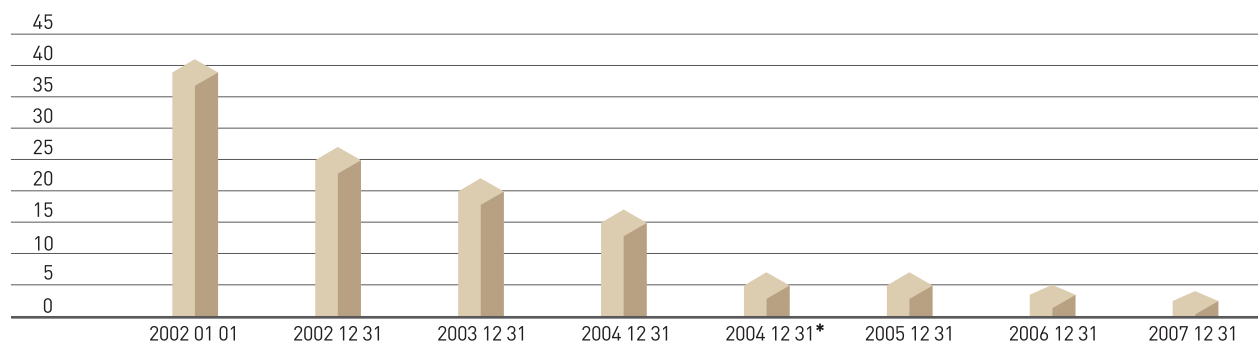
**Liabilities, million LTL**



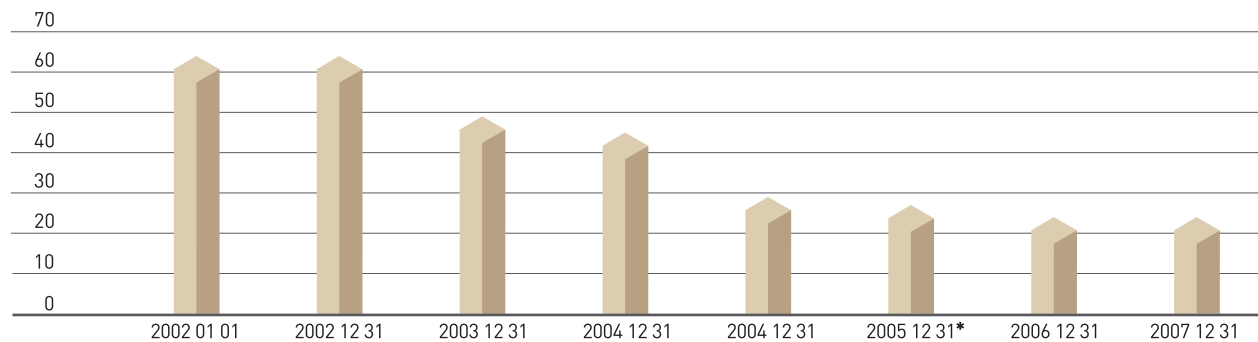
**Financial debt, million LTL**



**Debt to equity ratio, %**



**Liability to equity ratio, %**



\* Since then the performance indicators have been calculated in accordance with the IFRS.

