Joint Stock Company VST

Financial statements for the year 2007 prepared in accordance with International Financial Reporting Standards as adopted by the European Union presented together with independent auditors' report

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Independent auditors' report to the shareholders of Joint Stock Company VST

Report on the Financial Statements

We have audited the accompanying 2007 financial statements of Joint Stock Company VST, a company registered in the Republic of Lithuania (hereinafter the Company), which comprise the balance sheet as at 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

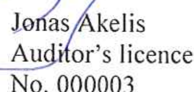
Opinion

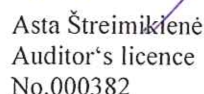
In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company VST as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Management Annual Report for the year ended 31 December 2007 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

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





Jonas Akelis
Auditor's licence
No. 000003

Asta Štreimikienė
Auditor's licence
No.000382

The audit was completed on 19 February 2008.

(all amounts are in LTL '000 unless otherwise stated)

Income statement

	Notes	2007	2006
Sales	3	1 053 757	924 779
Other operating income	4	5 574	4 935
		1 059 331	929 714
Purchases of electricity	5	(581 436)	(491 125)
Depreciation and amortisation	11, 19	(284 476)	(217 999)
Wages, salaries and social security		(56 034)	(50 659)
Repair and maintenance expenses	6	(23 941)	(21 619)
Spare parts and other inventories	13	(15 452)	(14 968)
Utilities and communications expenses		(5 697)	(5 445)
Other operating expenses	7	(7 039)	(32 632)
		(974 075)	(834 447)
Operating profit		**85 256**	**95 267**
Financial income	8	8 159	5 196
Financial (expenses)	8	(18 559)	(16 862)
Profit before tax		**74 856**	**83 601**
Current year income tax (expenses)	20	(41 023)	(54 383)
Deferred income tax benefit	20	33 411	30 459
Net profit		**67 244**	**59 677**
Basic and diluted earnings per share, in LTL	10	18.09	16.05

The financial statements presented on pages 4 to 30 were approved by the General Director and Director of Financial Department on 19 February 2008.

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
Director of Financial Department

(signature)

Balance sheet

	Notes	As of 31 December 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	11	2 734 971	2 079 091
Intangible assets	12	798	656
		2 735 769	2 079 747
Current assets			
Inventories	13	7 753	6 525
Trade and other receivables	14	89 846	83 039
Prepayments, deferred charges and accrued income	15	11 284	12 672
Cash and cash equivalents	16	206 440	102 935
		315 323	205 171
Total assets		**3 051 092**	**2 284 918**
EQUITY			
Share capital	17	111 540	111 540
Revaluation reserve	2	1 345 069	830 011
Legal reserve	2	11 154	11 154
Retained earnings		620 612	453 999
Total equity		**2 088 375**	**1 406 704**
LIABILITIES			
Non-current liabilities			
Borrowings	18	298 929	347 091
Deferred income	19	187 394	136 385
Deferred income tax liability	20	293 214	206 293
		779 537	689 769
Current liabilities			
Borrowings	18	80 389	49 489
Trade and other financial liabilities	21	67 643	89 887
Other payables	21	7 429	4 812
Advances received and accrued charges	22	25 046	28 321
Income tax payable		2 673	15 936
		183 180	188 445
Total liabilities		**962 717**	**878 214**
Total equity and liabilities		**3 051 092**	**2 284 918**

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
Director of Financial Department

(signature)

(all amounts are in LTL '000 unless otherwise stated)

Cash flow statement

	Notes	2007	2006
Cash flows from operating activities			
Net profit		67 244	59 677
Adjustments for non-cash items:			
- Income tax	20	7 612	23 924
- Depreciation and amortisation	11, 12	285 234	218 365
- Depreciation of property, plant and equipment received at no consideration	19	(758)	(366)
- Recognition of income from the connection of new customers	3	(4 751)	(3 558)
- Accrued income from electricity sales	15	(2 252)	(621)
- Loss on sale of property, plant and equipment	4	373	373
- Write-offs and impairment (reversal of impairment) of property, plant and equipment, revaluation effect	7	(14 439)	3 920
- Impairment (reversal) of impairment of receivables and prepayments	7	(7 967)	558
- Inventories surplus and (reversal) of inventories impairment		(3 010)	(804)
- Accrued wages, salaries and social security expenses and other accruals	22	1 168	3 065
- Net loss from transactions in foreign currencies	8	4	4
- Interest (income)	8	(8 159)	(5 196)
- Interest expenses	8	18 479	16 781
- Other (income)		(16)	-
		338 762	316 122
Changes in working capital:			
- Inventories		1 782	7 980
- Receivables, prepayments, deferred charges and accrued income		4 792	(8 832)
- Deferred income	19	56 518	31 499
- Payables, other financial liabilities, advances received and accrued charges		(23 383)	(3 514)
Cash flow from operations		378 471	343 255
Interest received		7 273	5 060
Interest (paid)		(18 355)	(16 533)
Income tax (paid)	20	(54 270)	(61 295)
Net cash flows from operating activities		**313 119**	**270 487**
Cash flows from investing activities			
(Purchase) of property, plant and equipment	11	(138 520)	(141 113)
(Purchase) of intangible assets	12	(126)	(885)
Proceeds from sale of property, plant and equipment		605	4 502
Loan repayments received		22	39
Net cash flows from investing activities		**(138 019)**	**(137 457)**
Cash flows from financing activities			
Proceeds from loans		423 231	-
Loans (repaid)		(435 301)	(101 237)
Financial lease payments	18	(95)	(41)
Dividends (paid)	9	(59 426)	(128 113)
Net cash flows from financing activities		**(71 591)**	**(229 391)**
Effects of exchange rate changes on cash balance	8	**(4)**	(4)
Net (decrease) increase in cash and cash equivalents		**103 505**	**(96 365)**
Cash and cash equivalents at beginning of year		102 935	199 300
Cash and cash equivalents at end of year	16	**206 440**	**102 935**

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
Director of Financial Department

(signature)

(all amounts are in LTL '000 unless otherwise stated)

Statement of changes in equity

	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total
Balance as at 31 December 2005		**111 540**	**925 424**	**11 154**	**429 730**	**1 477 848**
Reassessment of deferred income tax	20	-	(2 513)	-	-	(2 513)
Transfer from revaluation reserve to retained earnings		-	(92 900)	-	92 900	-
Total income and expense for the year recognised directly in equity		-	(95 413)	-	92 900	(2 513)
Net profit for the year		-	-	-	59 677	59 677
Total income and expense for the year		**-**	**(95 413)**	**-**	**152 577**	**57 164**
Dividends declared for 2005	9	-	-	-	(128 308)	(128 308)
Balance as at 31 December 2006		**111 540**	**830 011**	**11 154**	**453 999**	**1 406 704**
Revaluation of non-current assets	11	-	673 234	-	-	673 234
Reassessment of deferred income tax	20	-	681	-	-	681
Transfer from revaluation reserve to retained earnings		-	(158 857)	-	158 857	-
Total income and expense for the year recognised directly in equity		-	515 058	-	158 857	673 915
Net profit for the year		-	-	-	67 244	67 244
Total income and expense for the year		**-**	**515 058**	**-**	**226 101**	**741 159**
Dividends declared for 2006	9	-	-	-	(59 488)	(59 488)
Balance as at 31 December 2007		**111 540**	**1 345 069**	**11 154**	**620 612**	**2 088 375**

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
Director of Financial Department

(signature)

Notes to the financial statements

1 General information

Joint Stock Company VST (hereinafter the Company) is a joint stock company registered in the Republic of Lithuania and was established following the reorganisation of SPJSC Lietuvos Energija and registered on 31 December 2001. The Company has changed the name to JSC VST on 26 April 2005 from JSC Vakarų Skirstomieji Tinklai.

The financial statements cover individual Company's financial statements as of 31 December 2007.

The shares of the Company are traded on the Baltic Secondary List of the Vilnius Stock Exchange.

As of 31 December 2007 and 2006, the shareholders of the Company were as follows:

Shareholder	Number of shares	(%)
UAB NDX Energija	3 610 159	97.10
Other shareholders	107 839	2.90
	3 717 998	100.00

The Company's principal activity is distribution and supply of electricity in Western Lithuania.

The average number of the Company's employees was 1 885 in 2007 (1 968 in 2006).

The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

2 Summary of accounting policies

2.1 Basis of preparation

These financial statements have been prepared on a historical cost basis, except for property plant and equipment that have been measured at revalued amounts.

The financial statements are presented in Litas and all values are rounded to the nearest thousand (LTL 000) except when otherwise indicated.

Statement of compliance

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

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Company has adopted the following new and amended IFRS and International Financial Report Interpretation Committee (IFRIC) interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures.
- Amendments to IAS 1 Capital Disclosures.
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

- IFRS 7 Financial Instruments: Disclosures. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. There has been no effect on the financial position or results and comparative information has not been changed.

2 Summary of accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

- IAS 1 Presentation of financial statements. This amendment requires the Company to make new disclosures to enable users of financial statements to evaluate the Company's objectives, policies and procedures for managing capital. These new disclosures are shown in Note 23.

- IFRIC 8 Scope of IFRS 2. This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are not issued to employees, the interpretation had no impact on the financial position or performance of the Company.

- IFRIC 9 Reassessment of Embedded Derivatives. IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the financial position or performance of the Company.

- IFRIC 10 Interim Financial Reporting and Impairment. The Company adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

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

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity’s operating segments and also about the entity’s products and services, the geographical areas in which it operates, and its major customers IFRS 8 supersedes IAS 14 Segment Reporting.

- IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.

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

- IAS 27 Consolidated and Separate Financial Statements – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognized on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.

2 Summary of accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

- IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognized, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.

- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.

- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company's financial statements in the period of initial application, except for IAS 23 Borrowing costs and IAS 1 Presentation of Financial Statements – Revised.

IAS 23 Borrowing costs

The revised standard requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Company will adopt this as a prospective change. When the Company adopts this standard, borrowing costs related to qualifying assets will be capitalised.

IAS 1 Presentation of Financial Statements – Revised

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced.

2 Summary of accounting policies (cont'd)

2.2 Foreign currency translation

Functional currency

The amounts shown in these financial statements are measured and presented in local currency, Litas (LTL). The Litas is the functional currency of the Company.

Since 2 February 2002, the Litas is pegged to the Euro at a rate of LTL 3.4528 = EUR 1.

Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement under finance income or costs.

2.3 Segment reporting

The Company operates in one geographical and business segment, therefore no segment information is presented in these financial statements.

2.4 Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to the estimation of accrued revenue amortisation (Notes 2.5 and 19), overdeclaration income calculation (Note 22), depreciation (Notes 2.8 and 11) and impairment evaluation (Notes 2.10, 2.19 and 2.20). Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.5 Revenue recognition

All revenue are recognised net of value added tax and discounts directly related to sales.

Electricity sales revenue

Revenue on electricity sales to residential sector customers is recognised when earned. An estimate of revenue accrual is made to record amounts earned, but not yet received at the end of each accounting period.

Revenue on electricity sales to business customers is recognised when services are rendered based on the actual usage of the electricity.

Customers' connection fees

Contributions received from the new customers and producers for connection and reconstruction or transfer of the network items or equipment, according to the request of the customers, producers and others, initially are recognised as deferred revenue and subsequently recognised as income over the same period during which the related costs of installation are charged. The related costs of installation, which include cost of property, plant and equipment and other costs are capitalised and depreciated over the estimated useful lives of the capitalised assets.

Other revenue

Interest, rental and other revenue is recognised on an accrual basis. Other revenue is recognised upon delivery and transfer or risks and rewards of products or rendering of services and customer acceptance, if any.

2 Summary of accounting policies (cont'd)

2.6 Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

The standard income tax rate in Lithuania is 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with 15% corporate income tax, for one financial year beginning on 1 January 2006 companies have to pay an additional 4% tax calculated based on the income tax principles, and one financial year beginning on 1 January 2007 – 3% tax. After the year 2007 the income tax rate applied to the companies in the Republic of Lithuania will be 15%.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and / or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and (or) derivative financial instruments can be only used to reduce the taxable income earned from the transactions of the same nature.

2.7 Basic and diluted earnings per share

Basic earning per share is calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. Provided that the number of shareholders changes without causing a change in the economical resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period presented. Since there are no instruments reducing earnings per share, there is no difference between the basic and diluted earnings per share.

2.8 Property, plant and equipment

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

Construction in progress is stated at historical cost less accumulated impairment losses.

All other property, plant and equipment are shown at revalued amounts, based on periodic (at least every 5 years) valuations by external independent appraisers or by the Company's management (the management estimated values for assets that will be 100% reconstructed in the nearest future), 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. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

2 Summary of accounting policies (cont'd)

2.8 Property, plant and equipment (cont'd)

Depreciation of property, plant and equipment is calculated using the straight-line method of the carrying value of each asset over its estimated useful lives as follows:

- Buildings	10 - 80 years
Including:	
35-110 kV transformer substation buildings	35 years
10 kV distribution point buildings	35 years
10/0,4 kV transformer buildings	50 years
Connection and control system buildings	25 years
- Structures and machinery	5 - 50 years
Including:	
35-110 kV transformer substations (except buildings)	25 - 40 years
10 kV distribution points (except buildings)	35 years
10/0,4 kV power transformers	35 years
35 kV power lines	40 years
0,4-10 kV electricity network	30 - 40 years
10/0,4 kV transformers (except buildings)	30 years
Connection and control systems (except buildings)	10 - 40 years
- Vehicles	4 - 15 years
- Other tangible assets	3 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The review of useful lives is performed after revaluation of assets as well.

The useful lives of assets that are planned to be 100% reconstructed in the future are shortened until the start of the reconstruction date.

Property, plant and equipment obtained at no consideration is accounted for fair value in corresponding captions of property, plant and equipment and deferred income. Property, plant and equipment obtained at no consideration is depreciated by using straight-line method over the estimated useful life of these assets. The amounts accounted for in the deferred income caption are recognised as revenue in the income statement over the period of useful life of this property, plant and equipment and the depreciation expenses of the related property, plant and equipment in the income statement are reduced by this amount.

Interest costs on borrowings to finance the construction of property, plant and equipment are not capitalised and are recognised in the income statement when incurred.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the income statement. Gains and losses on disposal of property, plant and equipment are determined as a difference between proceeds and the carrying amount of the assets disposed. When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings.

Construction in progress is transferred to appropriate group of property, plant and equipment when it is completed and ready for its intended use.

2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

2.10 Impairment of non-current assets

Each year, property, plant and equipment and other non-current assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

2 Summary of accounting policies (cont'd)

2.11 Financial lease and operating 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 specific asset or assets or the arrangement conveys a right to use the asset.

The Company as a lessee
Financial lease, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the 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 reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

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

The Company as lessor
Lease where the Company does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating lease. Initial direct cost incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Operating lease – the Company as lessor
Assets leased under operating lease in the balance sheet of the Company are accounted for depending on their nature. Income from operating lease is recognised as other income in the statement of income within the lease period using the straight-line method. All the discounts provided to the operating lessee are recognised using straight-line method during the lease period by reducing the lease income. Initial direct expenses incurred in order to generate lease income are included in the carrying value of the leased asset.

2.12 Grants

Government grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognised as income in the financial statements over the period of depreciation of the assets associated with this grant. In the income statement, depreciation expense account is increased by the amount of grant amortisation.

Government 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.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using first-in, first-out (FIFO) method. The cost of inventories comprises purchase price, transport, and other costs directly attributable to the cost of inventories. Net realisable value is the estimate of the selling price, less the costs of completion, marketing and distribution.

2.14 Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at hand, demand deposits, and other short-term highly liquid investments.

2.15 Share capital

Ordinary shares are stated at their par value.

2 Summary of accounting policies (cont'd)

2.16 Reserves

Legal reserve

A legal reserve is a compulsory reserve under the Law on Joint Stock Companies of the Republic of Lithuania. Annual transfers of 5 per cent of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, are required until the reserve reaches 10 per cent of the share capital. The Company has already fully formed the reserve. The legal reserve cannot be distributed as dividends but can be used to cover any future losses.

Revaluation reserve

Revaluation reserve represents an increase in the carrying amount of property plant and equipment due to the revaluation. The reserve is decreased by the amount of relating deferred income tax upon its recognition. The revaluation reserve included in equity is transferred to retained earnings when it is realised. The revaluation reserve is realised on retirement or disposal of the asset or as the asset is used by the Company, i.e. the amount of reserve realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

2.17 Dividends

Dividends are recorded in the financial statements at the moment they are declared by the Annual General Shareholders' Meeting.

2.18 Borrowings

Borrowing costs are expensed as incurred.

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of borrowings.

2.19 Deferred income tax

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets have been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognized in the financial statements.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.20 Investments and other 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 financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

2 Summary of accounting policies (cont'd)

2.20 Investments and other financial assets (cont'd)

Financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy;
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Related profit or loss on revaluation is charged directly to the income statement. Interest income and expense and dividends on such investments are recognised as interest income and dividend income or interest expenses, respectively.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Receivables are carried at original invoice amount less allowance made for impairment of these receivables. An allowance for impairment of trade receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate. The change of the allowance is recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

The Company does not have financial instruments at fair value as of 31 December 2007 and 2006.

2 Summary of accounting policies (cont'd)

2.21 Derecognition of financial assets and liabilities

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 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 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 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 Company's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.22 Offsetting

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.

2.23 Employee benefits

Social security contributions

The Company 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 Company 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 related to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

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 recognises termination benefits when it is firmly 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. Non-current benefits recognised are recognised at present value discounted using market rate.

2.24 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements.

2.25 Subsequent events

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

(all amounts are in LTL '000 unless otherwise stated)

3 Sales

	2007	2006
Sales of electricity	1 033 199	906 098
Sales of reactive energy	15 807	15 123
Customers' connection fees (Note 19)	4 751	3 558
	1 053 757	**924 779**

3 947 million kWh of electricity were sold in 2007, i. e. by 7,17% more than in 2006 (3 683 m kWh – in 2006). The increase was caused mainly by the increase in consumption of electricity in the year 2007.

4 Other operating income

	2007	2006
Profit on sales of materials	1 157	1 485
Services related to electricity	587	1 182
Rent and telecommunication income	633	635
Penalties and fines received	686	711
Income from instalation works	1 845	322
Other income	666	600
	5 574	**4 935**

5 Purchases of electricity

Purchases electricity expenses present purchases of electricity from State Company Ignalinos Atominė Elektrinė, AB Lietuvos Energija and other electricity producers. The increase in expenses is in line with increase in sales.

6 Repair and maintenance expenses

Repair and maintenance expenses mainly present maintenance works purchased from services providers.

7 Other operating expenses

	2007	2006
Cash collection expenses	4 969	5 647
Impairment (reversal of impairment) and write-off of property, plant and equipment and (increase) in value that covers decrease in value during first revaluation	(14 438)	3 920
Taxes other than income tax	1 396	4 154
Fuel	4 015	4 017
IT expenses	1 073	1 097
Impairment (reversal of impairment) and write-off of receivables and prepayments	(8 113)	558
Loss on disposal of property, plant and equipment	373	373
(Reversal) of net realisable value adjustment	(2 226)	(273)
Other expenses	19 990	13 139
	7 039	**32 632**

(all amounts are in LTL '000 unless otherwise stated)

8 Finance (costs) / income, net

	2007	2006
Interest income	8 159	5 196
Total finance income	8 159	5 196
Interest (expenses)	(18 479)	(16 781)
Loan administration (expenses)	(75)	(76)
Penalties and fines (paid)	(1)	(1)
Net foreign exchange (losses)	(4)	(4)
Total finance (expenses)	(18 559)	(16 862)
	(10 400)	**(11 666)**

9 Dividends

	2007*	2006*
Dividends declared	59 488	128 308
Weighted average number of shares (thousands)	3 718	3 718
Approved dividends per share (expressed in LTL per share)	16.00	34.51

* The year when dividends are declared

The shareholders of the Company declared dividens in the amount of LTL 59 488 thousand for the year 2006 (LTL 128 308 thousand for 2005). The major part of the amount was paid out in year 2007. The remaining liability to the shareholders of the Company as of 31 December 2007 amounts to LTL 6 617 thousand (LTL 6 555 thousand as of 31 December 2006) and is accounted for in trade and other financial liabilities in the balance sheet (Note 21).

10 Earnings per share, basic and diluted

	2007	2006
Net profit attributable to shareholders	67 244	59 677
Weighted average number of ordinary shares in issue (thousands) (Note 17)	3 718	3 718
Basic earnings per share (expressed in LTL per share)	18.09	16.05

The Company has no dilutive potential ordinary shares and therefore the diluted earnings per share equal to basic earnings per share.

11 Property, plant and equipment

	Land and buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Construction in progress	Total
At 31 December 2005						
Cost or revalued cost	225 996	2 341 657	32 168	27 977	42 730	2 670 528
Accumulated depreciation	(32 382)	(456 312)	(3 056)	(10 136)	-	(501 886)
Accumulated impairment	-	-	-	-	(4 399)	(4 399)
Net book value	193 614	1 885 345	29 112	17 841	38 331	2 164 243
Year ended 31 December 2006						
Opening net book value	193 614	1 885 345	29 112	17 841	38 331	2 164 243
Additions	1 776	3 258	9 513	1 650	124 916	141 113
Disposals	(2 393)	(34)	(1 352)	(76)	(1 020)	(4 875)
Write-offs	(17)	(7 684)	(13)	(132)	-	(7 846)
Changes in impairment charge per year	-	-	-	-	3 926	3 926
Reclassifications between groups	3 369	70 993	24	3 311	(77 697)	-
Depreciation charge	(11 275)	(195 731)	(6 839)	(3 625)	-	(217 470)
Closing net book value	185 074	1 756 147	30 445	18 969	88 456	2 079 091
At 31 December 2006						
Cost or revalued cost	227 612	2 401 231	32 386	31 443	88 929	2 781 601
Accumulated depreciation	(42 538)	(645 084)	(1 941)	(12 474)	-	(702 037)
Accumulated impairment	-	-	-	-	(473)	(473)
Net book value	185 074	1 756 147	30 445	18 969	88 456	2 079 091
Year ended 31 December 2007						
Opening net book value	185 074	1 756 147	30 445	18 969	88 456	2 079 091
Additions	302	825	6 112	578	130 703	138 520
Disposals	(626)	(80)	(167)	(108)	(5 095)	(6 076)
Write-offs	(137)	(6 262)	(25)	(115)	-	(6 539)
Revaluation	140 116	669 111	(2 208)	7 604	-	814 623
Changes in impairment charge per year	-	-	-	-	(183)	(183)
Reclassifications between groups	8 589	134 837	1	11 993	(155 420)	-
Depreciation charge	(12 982)	(251 483)	(8 838)	(11 162)	-	(284 465)
Closing net book value	320 336	2 303 095	25 320	27 759	58 461	2 734 971
At 31 December 2007						
Cost or revalued cost	333 318	2 554 578	34 158	38 921	59 117	3 020 092
Accumulated depreciation	(12 982)	(251 483)	(8 838)	(11 162)	-	(284 465)
Accumulated impairment	-	-	-	-	(656)	(656)
Net book value	320 336	2 303 095	25 320	27 759	58 461	2 734 971

Depreciation is accounted for in operating expenses. The Company accounted for reduction in prepayments between 2007 and 2006 in the additions of construction in progress in amount of LTL 1 389 thousand.

Revaluation of property, plant and equipment

The Company's property, plant and equipment (except for construction in progress) was revalued by external independent appraiser, Ober-Haus Nekilnojamasis Turtas UAB, qualification certificate No. 000011 issued on 24 January 2000, in 2007. Valuations were made on the basis of replacement cost, except for other assets (with no business specific features) that were revalued using comparable prices method. The increases and decreases in carrying amounts arising from the revaluation of property, plant and equipment are as follows:

	Land and buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Total
Increase in carrying amount	190 220	1 025 165	4 716	10 157	1 230 258
Decrease in carrying amount	(50 104)	(356 054)	(6 924)	(2 553)	(415 635)
	140 116	669 111	(2 208)	7 604	814 623

11 Property, plant and equipment (cont'd)

Revaluation surplus emerged due to LTL 1 117 771 thousand increase in revaluation reserve and coverage of impairment for previous assets revaluation in the amount of LTL 112 487 thousand. The decrease of LTL 415 635 thousand is comprised of LTL 323 524 thousand decrease of revaluation reserve of previous revaluation and LTL 92 111 thousand decrease in assets' value that was accounted for in the income statement. The revaluation surplus amounting to LTL 673 234 thousand, net of applicable deferred income tax effect is accounted for in the revaluation reserve in equity and the impairment in the income statement.

If property, plant and equipment would not be revaluated, carrying values of property, plant and equipment as of 31 December 2007 and 2006 would be as follow:

	Land and buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Total
As of 31 December 2007	242 687	995 014	29 179	25 380	1 292 260
As of 31 December 2006	281 324	1 053 385	31 559	21 443	1 387 711

Changes of depreciation rates of property, plant and equipment

The Company changed estimates of useful lives of certain items of property, plant and equipment in 2006. The Company has shortened useful lives of the electricity lines and transformer substations that will be 100% reconstructed in the nearest future. The useful life was shortened until the start of reconstruction works.

Property, plant and equipment acquired under financial lease

Acquisitions of cars purchased through financial lease are accounted for under other property, plant and equipment. The net book value of this property in 2007 and 2006 amounted to LTL 166 thousand and LTL 108 thousand respectively.

Fully depreciated assets still used by the Company

As of 31 December 2007, the acquisition (revalued) cost of fully depreciated property, plant and equipment, but still in active use of the Company was LTL 8 253 thousand (LTL 381 252 thousand as of 31 December 2006).

12 Intangible assets

	Computer software
At 31 December 2005	
Cost	7 056
Accumulated amortisation	(6 390)
Net book value	666
Year ended 31 December 2006	
Opening net book amount	666
Additions	885
Amortisation charge	(895)
Closing net book value	656
At 31 December 2006	
Cost	7 941
Accumulated amortisation	(7 285)
Net book value	656
Year ended 31 December 2007	
Opening net book amount	656
Additions	126
Reversal of allowance	785
Amortisation charge	(769)
Closing net book value	798
At 31 December 2007	
Cost	8 065
Accumulated amortisation	(7 267)
Net book value	798

Amortisation is accounted for in operating expenses.

(all amounts are in LTL ‘000 unless otherwise stated)

13 Inventories

		Year ended 31 December	
		2007	**2006**
Spare parts and supplies (at cost)		11 261	13 028
Electricity meters (at cost)		2 445	1 676
		13 706	14 704
Valuation allowance	(a)	(5 953)	(8 179)
		7 753	**6 525**

(a) The Company reviewed slow moving inventories in 2007 and updated the allowance for inventories, accordingly. The decrease in allowance occurred as some of inventories were written off or used.

The acquisition cost of the Company’s inventories accounted for at net realisable value as of 31 December 2007 amounted to LTL 5 953 thousand (LTL 8 179 thousand as of 31 December 2006). Changes in the allowance for inventories for the year 2007 and 2006 have been included into operating expenses.

The amount of write-down of inventories recognised as an expenses is LTL 15 452 thousand for the year 2007 (LTL 14 968 thousand for the year 2006).

14 Trade and other receivables

		Year ended 31 December	
		2007	**2006**
Trade receivables	(a)	119 390	110 523
Other receivables	(b)	1 615	11 788
Trade and other receivables, gross		121 005	122 311
Impairment allowance for trade receivables		(30 463)	(38 439)
Impairment allowance for other receivables		(696)	(833)
		(31 159)	(39 272)
		89 846	**83 039**

(a) The increase in trade receivables in 2007 is due to the increase in electricity sales.

(b) The Company in 2006 has accounted for a grant receivable for the EU financed project for implementation of infrastructure modernization of the Company in the amount of LTL 10 023 thousand. The financing was received in 2007.

Trade receivables are non-interest bearing and are generally on 30 – 90 days terms.

As of 31 December 2007 trade receivables with the nominal value of LTL 25 085 thousand (as of 31 December 2006 – LTL 35 452 thousand) were impaired and fully provided for.

Movements in the allowance for impairment of receivables were as follows:

Balance as of 31 December 2005	38 704
Charge for the year	1 228
Amounts reversed	(660)
Balance as of 31 December 2006	39 272
Charge for the year	9
Written off	(146)
Amounts reversed	(7 976)
Balance as of 31 December 2007	31 159

Trade and other receivables that are individually impaired amount to LTL 4 976 thousand as of 31 December 2007 (LTL 8 019 thousand as of 31 December 2006).

(all amounts are in LTL '000 unless otherwise stated)

14 Trade and other receivables (cont'd)

Trade and other accounts receivables are written off when the management is completely sure that the amount will not be recovered.

The ageing analysis of trade and other receivables as of 31 December 2007 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired					
		Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	Total
2006	81 102	1 355	51	147	40	344	83 039
2007	82 536	5 096	493	513	589	619	89 846

Credit quality of financial assets neither past due nor impaired

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

15 Prepayments, deferred charges and accrued income

	Year ended 31 December	
	2007	2006
Accrued income from electricity supply	9 661	7 409
Accrued interest income	1 022	136
Prepayments for services	284	201
Other prepayments and deferred charges	357	4 952
	11 324	12 698
Impairment of prepayments	(40)	(26)
	11 284	**12 672**

16 Cash and cash equivalents

	Year ended 31 December	
	2007	2006
Cash at bank and on hand	3 422	7 213
Short-term bank deposits	34 519	6 000
Bonds	168 499	89 722
	206 440	**102 935**

As of 31 December 2007 and 2006, cash and cash equivalents include LTL 12 674 thousand allowance for cash in banks under liquidation.

The effective interest rate for the short-term deposit is 4.068% (in 2006 – 3.65%). The term of this deposit is 3 days (in 2006 – up to 18 days).

As of 31 December 2007 the Company had bonds issued by AB Sampo Bankas with the maturity of 62 and 20 days and the effective interest rate of 6.3% and 5.7% (in 2006 – 29 days and effective interest rate of 3.9%).

The fair value of cash, short term deposits and bonds as of 31 December 2007 amounts to LTL 206 440 (LTL 102 935 as of 31 December 2006).

17 Share capital

As of 31 December 2007 and 2006, the Company's share capital amounted to LTL 111 540 thousand. As of 31 December 2007 and 2006, the share capital is divided into 3 717 998 ordinary registered shares of LTL 30 par value each. All shares are fully paid. The Company did not hold any of its shares.

18 Borrowings

	Year ended 31 December	
	2007	**2006**
Current borrowings		
Current portion of non-current bank loans	80 003	48 581
Financial lease liabilities	119	44
Current portion of other long term payables	267	864
	80 389	49 489
Non-current borrowings		
Bank loans	297 696	340 065
Financial lease liabilities	-	112
Other long term payables	1 233	6 914
	298 929	347 091
Borrowings, total	**379 318**	**396 580**

In April 2005 the Company took over a part of the syndicated loan originally granted by the banks to UAB NDX Energija in the amount of LTL 95 979 thousand by setting off dividends payable for 2004 to this shareholder. The Company has already taken over the liability of LTL 389 828 thousand of the same syndicated loan of the main shareholder UAB NDX Energija in December 2004. This loan is denominated in EUR and has to be repaid by 15 December 2011.

On 19 January 2007 the Company refinanced the syndicated loan and signed a new agreement. The amount of syndicated loan remained unchanged, only the repayment schedule was updated. The final repayment date was not changed.

The Company also accounts for overdraft from Nordea Bank Finland PLC in the current portion of non-current bank loans. The overdraft amounts to LTL 34 528 thousand as of 31 December 2007 (the Company did not have overdraft as of 31 December 2006) and has to be repaid until 31 December 2008. The interest rate of the overdraft depends on EONIA interest rate fluctuation plus 0.45% margin.

Actual interest rates are close to effective interest rates. As of 31 December 2007 the weighted average interest rate on long term borrowings (except for finacial lease) was 5.066% (as of 31 December 2006 – 4.51%) and on financial lease liabilities – 5.48% (as of 31 December 2006 – 3.3%). All financial liabilities are subject to variable interest rates. As of 31 December 2007 and 2006 the interest rate refixing periods on financial liabilities varied from 3 to 6 months.

The maturity of non-current borrowings (except for financial lease liabilities) was as follows:

	Year ended 31 December	
	2007	**2006**
Within one year	80 270	49 445
Within 2 to 5 years	298 762	343 522
After 5 years	167	3 457
	379 199	**396 424**

Financial lease liabilities – minimum lease payments:	Year ended 31 December	
	2007	**2006**
Within one year	121	49
Within 2 to 5 years	-	117
	121	166
Future interest expenses of financial lease	(2)	(10)
Current value of financial lease liabilities	**119**	**156**

Other long term payables represent payable to AB Lietuvos Energija for the purchase of property, plant and equipment.

According to the agreements, the Company has to repay the amount until the year 2015.

No assets are pledged as a collateral for the financial liabilities.

(all amounts are in LTL '000 unless otherwise stated)

19 Deferred income

Deferred income relates to contributions received from new customers for the assets installed; financing received from the EU structural funds and property, plant and equipment received by the Company for no consideration.

	Year ended 31 December	
	2007	**2006**
New customers connection income	137 405	100 899
Advances for the connection of new customers	24 746	15 380
Financing from EU funds	16 630	11 127
Property, plant and equipment received at no consideration (less accumulated amortisation)	8 613	8 979
	187 394	**136 385**

Information about the connection income is presented below:

	Year ended 31 December	
	2007	**2006**
Opening balance	100 899	67 592
Property, plant and equipment related to new customers connection constructed per year	41 257	36 865
Recognised as income in the income statement	(4 751)	(3 558)
Closing balance	**137 405**	**100 899**

Financing from the EU structural funds represents support received under the contract signed on 8 July 2005 for the implementation of infrastructure modernization of the Company. According to this project the Company received LTL 15 992 thousand during the year 2007.

Amortisation of deferred income related to property, plant and equipment received at no consideration in the amount of LTL 758 thousand in 2007 (LTL 366 thousand in 2006) decreased depreciation expenses of property, plant and equipment in the income statement.

20 Deferred tax liability, net

The change in the deferred income tax accounts is as follows:	Year ended 31 December	
	2007	**2006**
Components of income tax expenses (benefit):		
Current year income tax expenses	48 068	54 383
Adjustments of income tax for the previous years	(7 045)	-
Deferred income tax (benefit)	(33 411)	(30 459)
Income tax expenses (income) charged to the income statement	**7 612**	**23 924**

	Year ended 31 December	
	2007	**2006**
Components of deferred income tax asset:		
New customers connection income	9 528	15 229
Accrued expenses	162	1 746
Impairment of assets (inventories and trade accounts receivable)	5 456	7 133
Deferred income tax asset before valuation allowance	15 146	24 108
Less: valuation allowance	(558)	(4 285)
Deferred income tax asset, net	**14 588**	**19 823**
Components of deferred income tax liability:		
Property, plant and equipment revaluation and changes in depreciation periods	(292 926)	(208 047)
Sales cut-off	-	(1 334)
Investment incentive	(14 876)	(16 735)
Deferred income tax liability	**(307 802)**	**(226 116)**
Deferred income tax, net	**(293 214)**	**(206 293)**

(all amounts are in LTL '000 unless otherwise stated)

20 Deferred tax liability, net (cont'd)

Valuation allowance was made for part of the deferred tax asset that, in the opinion of the management, is not likely to be realised in the foreseeable future. In 2007 valuation allowance was made for the part of the deferred tax asset components – trade receivable impairment, which according to the management will not be tax deductable in the future. Deferred income tax asset and deferred income tax liability are set off in the balance sheet of the Company, as they both are related to the same tax authority.

While assesing deferred income tax asset and liability components for the year ended 31 December 2006 the Company has used the income tax rate of 18% for those items, which will be realised in 2007, and 15% rate was used for the items which will be realised in 2008 and later (Note 2.6). Accordingly deferred tax as of 31 December 2007 was assessed using 15% for the items to be realised in 2008 and later. The amount of deferred tax liability realised in 2007 was lower than evaluated at year end 2006, therefore the deferred tax liability was reassessed as of 31 December 2007, giving the decrease of liability in the amount of LTL 681 thousand accounted for in the equity.

Deferred income tax related to items charged or credited directly to equity

	Year ended 31 December	
	2007	**2006**
Change in assessment of deferred tax liability	681	(2 513)
Deferred tax on assets revaluation	(121 013)	-
	(120 332)	**(2 513)**

The reported amount of income tax expenses attributable to continuing operations for the year can be reconciled to the amount of income tax expenses that would result from applying the statutory income tax rate of 18% for 2007 and 19% for 2006 to pretax income from continuing operations as follows:

	Year ended 31 December	
	2007	**2006**
Income tax calculated at 18% (2006 – 19%)	13 474	15 884
Permanent differences	6 856	1 242
Prior year income tax corrections	(7 045)	-
Changes in valuation allowance	(3 727)	4 285
Effects of changes in income tax rate	(1 946)	2 513
Income tax (benefit) expenses charged to the income statement	**7 612**	**23 924**

21 Trade, other financial liabilities and other payables

		Year ended 31 December	
		2007	**2006**
Trade payables		60 996	83 301
Dividends payable		6 617	6 555
Other		30	31
Trade and other financial liabilities		67 643	89 887
Wages, salaries and social security payable		1 266	1 184
Taxes other than income tax	(a)	6 163	3 628
Other payables		7 429	4 812
		75 072	**94 699**

(a) The increase in taxes payable is due to the increase in VAT payable by the end of 2007.

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 15-30 day terms. The same terms apply for sales to related parties.
- Other payables are non-interest bearing and have an average term of one month.

(all amounts are in LTL ‘000 unless otherwise stated)

22 Advances and accrued charges

		Year ended 31 December	
		2007	**2006**
Accrued charges	(a)	22 940	22 114
Deferred income – advances received for the electricity	(b)	875	5 569
Other advances		1 231	638
		25 046	**28 321**

(a) An accrued charges caption mainly contains accrued bonuses to employees and related social security taxes that amounted to LTL 2 152 thousand and LTL 4 668 thousand as of 31 December 2007 and 2006 respectively. Moreover accrued payment to VĮ "Ignalinos atominė elektrinė" in the amount of LTL 12 232 thousand is accounted for in 2007 (LTL 14 679 thousand in 2006) for the electricity purchased in the respective year.

(b) The Company has deferred the estimated overdeclaration of electricity that took place in December 2006 due to the fact that the electricity prices were increased from 1 January 2007. The overdeclared amount was accounted for as advances for electricity received as there was no increase in prices in the beginning of the year 2008, the overdeclaration accrual was not booked as of 31 December 2007.

23 Financial risk management

Credit risk

As the Company is working with big number of customers, it does not face a significant credit concentration risk. Credit risk or the risk that the Company will not be able to recover amount receivable, is controlled by the application of credit terms and monitoring procedures. The Company has special credit department that is responsible for the monitoring of collection of receivables.

The Company does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Company considers that its maximum exposure is reflected by the amount of bonds and trade receivables, net of allowance for doubtful accounts recognized at the balance sheet date.

The Company trades only with recognised third parties, so there is no requirement for collateral.

Maximum exposure to credit risk amounts to LTL 296 286 thousand and LTL 185 974 thousand as of 31 December 2007 and 2006, respectively.

Interest rate risk

The Company’s income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets.

The major part of the Company’s borrowings is with variable rates, related to EURIBOR and LIBOR, which creates an interest rate risk. There are no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2007 and 2006.

The following table demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company’s profit before tax (through the impact on floating rate borrowings). There is no impact on the Company’s equity, other than current year profit impact.

	Increase/ decrease in percentage points	Effect on profit before tax
2007		
LTL	+ 0.5	(7)
LTL	-2.0	30
EUR	+ 0.5	(1 889)
EUR	-1,0	3 778
2006		
LTL	+ 2.0	(156)
LTL	- 0.5	39
EUR	+ 0.85	(3 305)
EUR	- 0.5	1 944

23 Financial risk management (cont'd)

Foreign exchange risk

All monetary assets and liabilities of the Company are denominated in litas or euro, and the exchange rate of the latter is fixed in respect to litas; therefore, the Company practically is not exposed to the foreign exchange rate risk.

Liquidity risk

The Company’s policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company’s liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2007 were 1.72 ir 1.68, respectively (1.09 and 1.05 as of 31 December 2006, respectively).

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and overdrafts. The Company's activities generate sufficient amount of cash, therefore the main managements' responsibility is to monitor that the liquidity ratio of the Company is not lower than 1. The Company exceeds managements' expectations in the liquidity area in years 2007 and 2006.

The table below summarises the maturity profile of the Company’s financial liabilities as of 31 December 2007 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	5 001	62 823	377 676	3 845	449 345
Trade and other financial liabilities	-	67 643	-	-	-	67 643
Balance as of 31 December 2006	-	72 644	62 823	377 676	3 845	516 988
Interest bearing loans and borrowings	-	16 440	82 310	323 010	182	421 942
Trade and other financial liabilities	-	89 887	-	-	-	89 887
Balance as of 31 December 2007	-	106 327	82 310	323 010	182	511 829

Fair value of financial instruments

The Company’s principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term borrowings.

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

The carrying amount of the financial assets and financial liabilities of the Company as of 31 December 2007 and 2006 approximates their fair value.

The fair value of loans, other financial liabilities and other financial assets have been calculated using market interest rates.

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

a) The carrying amount of current trade and other accounts receivable, current trade and other accounts payable and short-term borrowings approximates fair value due to their relatively short maturity.

b) The fair value of non-current debt is based on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

23 Financial risk management (cont'd)

Capital management

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements. Capital includes equity attributable to equity holders.

The Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2007 and 31 December 2006.

The Company is obliged to keep its equity up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania.

Moreover the Company has externally imposed capital requirements from the banks. They require that equity/assets ratio is not less than 30%. The management monitors that the Company is in line with the requirement. No other capital management tools are used.

24 Commitments

Capital commitments

As at 31 December 2007, capital expenditure contracted for at the balance sheet date but not recognised in the financial statements amounts to LTL 18 203 thousand (LTL 15 625 thousand as of 31 December 2006).

25 Cash generated from operations

When calculating cash flows from operations, the following main non-cash transactions were eliminated:

In 2007

Disposed non-current assets to AB Lietuvos Energija amounted to LTL 5 098 for repayment of the payable liability.

In 2006

EU subsidy receivable in the amount of LTL 10 023 thousand (Note 19).

26 Related party transactions

Transactions with Company's management

In 2007 the total remuneration of the Company's management (5 managers) amounted to LTL 2 337 thousand (in 2006 – LTL 1 951 thousand to 6 managers). The management of the Company did not receive any loans, guarantees no other payments or property transfers were made or accrued.

Transactions with other related parties

Other related parties are the entities controlled by shareholders of UAB NDX Energija.

Transactions with other related parties are presented below:

(i) Sales of services (excl. VAT):

	2007	2006
Maxima LT, UAB (former UAB VP Market)	13 789	14 445
Akropolis, UAB	9 319	8 388
UAB Eurovaistinė (former UAB Eurofarmacijos vaistines)	130	138
UAB NDX Energija	142	-
UAB Tikras Kelias	162	-
	23 542	**22 971**

26 Related party transactions (cont'd)

(ii) Purchase of goods and services (excl. VAT)

	2007	2006
UAB Eurocom – communications services	-	401
UAB Ermitažas – tools purchase	-	134
UADBB CITO draudimas – insurance services	1	131
UAB NDX energija – consultation services	137	65
Maxima LT, UAB (former UAB VP Market) – gift vouchers and food products	34	11
	172	**210**

(iii) Payables and advances received

	Year ended 31 December	
	2007	**2006**
Akropolis, UAB	-	449
UAB NDX energija	12	4
UAB Eurocom	-	1
Maxima LT, UAB (former UAB VP Market)	478	-
	490	**454**

(iv) Receivables

	Year ended 31 December	
	2007	**2006**
Maxima LT, UAB (former UAB VP Market)	1 464	1 151
Akropolis, UAB	1 008	419
UAB Eurovaistinė (former UAB Eurofarmacijos vaistines)	19	14
UAB NDX Energija	12	-
UAB Tikras Kelias	23	-
	2 526	**1 584**

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2007 and 2006, the Company has not made any provision for doubtful debts relating to amounts owned by related parties as all the assets are not overdue. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.