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LITGRID TURTAS AB

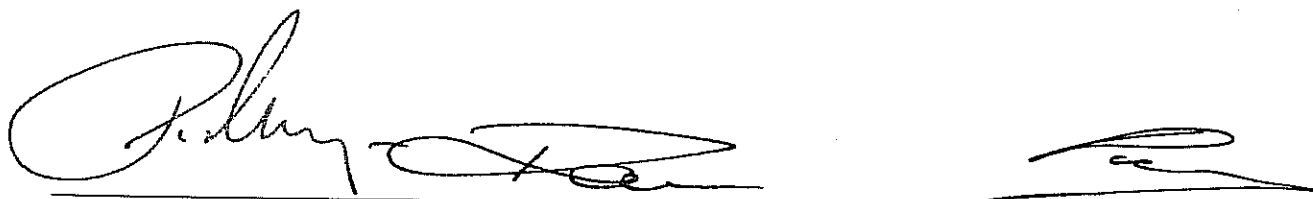
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2010  
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL  
REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN  
UNION, PRESENTED TOGETHER WITH THE INDEPENDENT  
AUDITOR'S REPORT

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The financial statements were signed on 18 March 2011.



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Virgilijus Poderys General Director	Remigijus Vainius Director of Finance and Legal Department	Tatjana Didikienė Chief Financier
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*Our report has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of our report takes precedence over the English language version.*

## **Independent Auditor's Report**

To the shareholders of LITGRID Turtas AB

### **Report on the financial statements**

We have audited the accompanying stand alone and consolidated financial statements (together 'the Financial statements') of LITGRID Turtas AB ('the Company') and its subsidiaries (collectively 'the Group') set out on pages 43 – 84 which comprise the stand alone and consolidated statements of financial position as of 31 December 2010 and the stand alone and consolidated statements of comprehensive income, changes in equity and cash flows for the period from establishment to 31 December 2010, and a summary of significant accounting policies and other explanatory information.

#### *Management's responsibility for the financial statements*

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these Financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 qualified audit opinion.

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T: +370 (5) 239 2300, F: +370 (5) 239 2301, E-mail: vilnius@lt.pwc.com, www.pwc.com/lt*

PricewaterhouseCoopers UAB, company code 111473315, VAT payer's code LT114733113, registered office at J. Jasinskio 16B, LT-01112 Vilnius, is a private company registered with the Legal Entities' Register of the Republic of Lithuania. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.



*Basis for Qualified Opinion - scope limitation*

According to the Company's and the Group's accounting policy, property, plant and equipment should be carried at revalued amounts (being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses) and are subject to an impairment test when impairment indicators exist. As explained in Note 3.30 to the Financial statements, amendments to the legislation may have had a significant adverse impact on the fair value and recoverable amount of the Company's and the Group's assets. The Company's and the Group's management was not able to reassess fair values of property, plant and equipment with the carrying amounts of LTL 2,051 million and LTL 2,063 million as of 31 December 2010 or to carry out a proper impairment test. It has not been possible to estimate reliably the financial effects of this non-compliance.

*Qualified Opinion*

In our opinion, except for the possible effects of the matter referred to in the preceding paragraph, the accompanying Financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2010, and of their financial performance and their cash flows for the period from establishment to 31 December 2010 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 consolidated Annual Report for the period from establishment to 31 December 2010 set out on pages 5 - 42 and have not noted any material inconsistencies between the financial information included in it and the audited Financial statements for the period from establishment to 31 December 2010.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler  
Director

Vilnius, Republic of Lithuania  
21 March 2011

Rimvydas Jogėla  
Auditor's Certificate No.000457

LITGRID Turtas AB  
Company code: 302564383 A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED ANNUAL REPORT  
AS AT 31 DECEMBER 2010

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### CONSOLIDATED ANNUAL REPORT OF LITGRID TURTAS AB AND ITS SUBSIDIARIES FOR 2010

The consolidated annual report of public limited liability company LITGRID Turtas AB (hereinafter referred to as the "Entity" or "Company") and its subsidiaries (the Company and its subsidiaries hereinafter referred to as the "Group") for 2010 has been prepared following Article 25 of Chapter Five of the Law of the Republic of Lithuania on Financial Statements of Entities and Article 9 of Chapter Three of the Law of the Republic of Lithuania on Consolidated Accounts of Groups of Entities, as well as Resolution No. 1K-3 of the Securities Commission of the Republic of Lithuania On the Approval of the Rules for Preparation and Submission of Periodic and Additional Information, dated 23 February 2007, Resolution No. 1052 of the Government of the Republic of Lithuania On the Approval of the Description of the Guidelines for Securing the Transparency of Activities of Entities Governed by the State and the Appointment of the Coordinating Authority, dated 14 July 2010.

#### General information about the Group of Entities

##### Reporting period of the consolidated annual report

The consolidated annual report of the Company and its subsidiaries has been prepared for the financial year 2010. LITGRID Turtas AB performed its activities for a part of the calendar year – the Company was entered into the register of companies on 16 November 2010 and started its actual operation on 1 December 2010. Though the Group performed its activities only for one month of the financial year, this report discloses the activity of one of the Group Entities, i.e. LITGRID AB, because of its importance, for the full year 2010.

**The companies forming the Group and their contact information (names, legal forms, dates and places of registration, legal entity codes, addresses of registered offices (in case addresses of registered offices and actual offices are different, both are specified), telephone, fax numbers, e-mail addresses, website addresses)**

As of 31 December 2010 the Company had direct control of its subsidiaries LITGRID AB and TETAS UAB. The Company also indirectly, through LITGRID AB, controlled BALTPOOL UAB and indirectly, through TETAS UAB, it controlled Energetikos Pajėgos UAB.

The Company, preparing its consolidated financial statements for 2010, consolidated the financial statements of LITGRID AB, BALTPOOL UAB, TETAS UAB and Energetikos Pajėgos UAB.

The contact information of the Group is given below:

Name	Legal form	Date and place of registration	Company code	Address of registered office	Telephone, fax, e-mail
LITGRID Turtas AB	Public limited liability company	16-11-2010 Register of Legal Entities of the Republic of Lithuania	302564383	A. Juozapavičiaus g. 13, LT-09311, Vilnius	Tel.: +370 5 278 2777 Fax: +370 5 272 3986 <a href="mailto:info@litgrid.eu">info@litgrid.eu</a> <a href="http://www.litgrid.eu">www.litgrid.eu</a>
LITGRID AB	Public limited liability company	22-10-2009 Register of Legal Entities of the Republic of Lithuania	302449655	A. Juozapavičiaus g. 13, LT-09311, Vilnius	Tel.: +370 5 278 2777 Fax: +370 5 272 3986 <a href="mailto:info@litgrid.eu">info@litgrid.eu</a> <a href="http://www.litgrid.eu">www.litgrid.eu</a>
BALTPOOL UAB	Private limited liability company	11-12-2009 Register of Legal Entities of the Republic of Lithuania	302464881	A. Juozapavičiaus g. 13, LT-09311, Vilnius	Tel.: +370 5 278 2260 Fax: +370 5 278 2707 <a href="mailto:info@baltpool.lt">info@baltpool.lt</a> <a href="http://www.baltpool.lt">www.baltpool.lt</a>
TETAS UAB	Private limited liability company	08-12-2005 Register of Legal Entities of the Republic of Lithuania	300513148	Senamiesčio g. 102B, LT-35116, Panevėžys	Tel.: +370 45 504 618 Fax: +370 45 504 684
Energetikos Pajėgos UAB	Private limited liability company	23-11-2003 Register of Legal Entities of the Republic of Lithuania	136046431	T. Masiulio 16 D, Kaunas-14, LT-52374	Tel.: (370 37) 309897 Fax: (370 37) 309803 <a href="mailto:info@epajegos.lt">info@epajegos.lt</a> <a href="http://www.energetikospajegos.lt">www.energetikospajegos.lt</a>

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**Type of the main activities of the companies forming the Group**

Company	Shareholding interest held by the Group	Main activities
LITGRID Turtas AB	-	Management, use and disposal of the assets of the electricity transmission system and their appurtenances, management of companies performing the functions and activities of the electricity transmission system operator and the market operator, as well as management of companies holding the ownership of electricity interconnections with other countries or which develop, manage, use or dispose of them
LITGRID AB	100 %	Activities of the electricity transmission system operator
BALTPPOOL UAB	100 %	Activities of the electricity market operator
TETAS UAB	61.13 %	Specialised services of technical maintenance, repair and installation of transformer substations, distribution stations, testing and trial work
Energetikos Pajėgos UAB	61.13 %	Designing of energy objects

In addition to the above-mentioned subsidiaries the Group held shares of the following companies: LitPol Link Sp.z.o.o (Poland) (50 percent of shares and votes carried by them), Elektros Tinklo Paslaugos UAB (28.87 percent of shares and votes carried by them), Technologijų ir Inovacijų Centras UAB (35.14 percent of shares and votes carried by them) and NT Valdys UAB (former Kruonio Investicijos UAB) (0.35 percent of shares and votes carried by them).

The shares of all the subsidiaries and associated companies were transferred to the Company according to the terms of spinoff of Lietuvos Energija AB approved by the decision of the extraordinary general meeting of shareholders of Lietuvos Energija AB on 28 October 2010. The following shares held by Lietuvos Energija AB were transferred to LITGRID Turtas AB:

- 3,454,350 shares in TETAS UAB, the value of which is LTL 8,290,440;
- 4,731,440 shares in Elektros Tinklo Paslaugos UAB, the value of which is LTL 4,731,440;
- 13,281,082 shares in Technologijų ir Inovacijų Centras UAB, the value of which is LTL 13,281,082;
- 9,095 shares in NT Valdys UAB (formerly, Kruonio Investicijos UAB), the value of which is LTL 909,500;
- 9,747,612 shares in LITGRID AB, the value of which is LTL 9,747,612;
- 20,000 shares in LitPol Link Sp.z.o.o, the value of which is LTL 1,019,580.

**Information about agreements with intermediaries of public trading in securities**

The Agreement on Keeping Accounts of the Issuer's Securities was made with Swedbank AB for managing the accounting of the securities issued by the issuer and keeping of personal securities accounts. The agreement is in effect until 1 November 2011.

**Trading in securities of the companies forming the Group on regulated markets (name of a regulated market, the number of securities admitted to trading)**

The shares of the Company are traded on NASDAQ OMX Vilnius Stock Exchange (hereinafter, the "VSE") from 22 December 2010. The shares of the Company are admitted to the Secondary List of the VSE. The Company has issued 504,331,380 ordinary registered shares with LTL 1 (one) par value each (ISIN code LT0000128415).

**Overview of the standing, performance and development of the activities of the Group, description of the main risk types and uncertainties faced**

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### **Purposes of activities of the Group**

Lietuvos Energija AB, taking into account Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity, established its subsidiary LITGRID UAB on 9 October 2009. The company was transformed into a public limited liability company by decision No. 31 of the sole shareholder, dated 30 June 2010. On 22 October 2009 the company was registered with the Register of Legal Entities. LITGRID AB did not perform any activities by the end of the financial year 2009.

On 28 December 2009 LITGRID AB was granted a license for transmission activities and starting from 1 January 2010 the company took over from Lietuvos Energija AB and is performing the function of the electricity transmission system operator (hereinafter, the "TSO"). The purpose of LITGRID AB is to ensure, within the limits of its competence, the stability and reliability of the operation of the energy system in the territory of the Republic of Lithuania, to form the impartial and non-discriminatory conditions for the use of the transmission networks.

In January – November 2010 Lietuvos Energija AB remained the owner of the electricity transmission networks and signed the agreement with LITGRID AB, by which the latter was renting of high voltage electric transmission networks and other facilities intended for electricity transmission for the management and operation by LITGRID AB. Following this agreement, in January – November 2010 Lietuvos Energija AB provided the Company with the services of maintenance and operation of the electricity transmission system.

On 1 March 2010, the Board of LITGRID AB set the following goals for the company:

- To prepare the transmission system for synchronic operation by getting the Baltic countries connected to the networks of the Continental Europe (CE - Continental Europe), *long-term goal*;
- To prepare the company for independent operation according to the requirements of the 3<sup>rd</sup> Energy Package of the EU, *goal for 2010*;
- To implement the first part of stage II of the development of NPS BEMIP (*Baltic Energy Market Interconnection Plan*): to get ready for operation in the electricity market of the Baltic countries (preparation of the legal-regulatory environment), *goal for 2010*.

The performance results of LITGRID AB met the goals of the activities of the company – as described in relevant sections of this report.

On 4 May 2010 the Government of the Republic of Lithuania approved of the concept of amending the Law on Electricity, by which the 3<sup>rd</sup> Energy Package of the EU was implemented. It was decided to separate from Lietuvos Energija AB the electricity transmission networks, LITGRID AB as the operator of the transmission system and BALTPPOOL UAB as the market operator, which will be controlled by the Lithuanian state directly, pursuant to the provisions of the 3<sup>rd</sup> Energy Package regarding the ownership unbundling.

Visagino Atominė Elektrinė UAB in the decision of the Board meeting of 12 August 2010 regarding the setting of the main guidelines for transformation of the electricity sector provided for formation of a transmission block as one of its goals, the main purposes of which are: (i) to separate and mainstream the activities, (ii) to comply with requirements of the 3<sup>rd</sup> Energy Package of the EU, (iii) to form a strong company that would be capable of interconnecting the Lithuanian electricity grid with the ENTSO-E/ECN grid, starting with the links to Poland, Sweden, (iv) to implement measures for facilitating the liberalization of the electricity market, (v) to transfer auxiliary functions to maintenance companies.

In implementation of these purposes, the extraordinary general meeting of shareholders of Lietuvos Energija AB held on 28 October 2010 adopted the decision to separate from Lietuvos Energija AB, that will continue its operation after the spin-off, a part of its activities performed by Lietuvos Energija AB both directly and indirectly (through its subsidiaries), including the activities of the transmission system operator, the activities of the electricity market operator and a part of the information technologies related to the activities of the transmission system operator and other activities in the electricity sector, and on this basis of assets, rights and obligations attributed to such separated part of the activities to create one new company of the same legal form – LITGRID Turtas AB, that after the spin-off will carry out the activities transferred to it. Also, the spin-off terms of Lietuvos Energija AB were approved.

Pursuant to the spin-off terms, the transfer – acceptance act was signed on 1 December 2010. By this transfer – acceptance act LITGRID Turtas AB took over a part of assets, rights and obligations of Lietuvos Energija AB attributed to the separated part as defined in the spin-off terms of Lietuvos Energija AB. LITGRID Turtas AB became the sole shareholder of LITGRID AB holding 100 percent of shares of the company.

The purposes of LITGRID Turtas AB activities are management, use and disposal of the assets of the electricity transmission system and their appurtenances, management of companies performing the functions and activities of the

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electricity transmission system operator and the market operator, as well as management of the companies holding the ownership of electricity interconnections with other countries or which develop, manage, use or dispose of them. Starting on 1 December 2010 LITGRID Turtas AB provides LITGRID AB with property lease, property maintenance and other services that were previously provided by Lietuvos Energija AB under the agreement. According to the spin-off terms this agreement was transferred to LITGRID Turtas AB.

### ***Services provided by the Group***

The activities of the Group company LITGRID AB in broad sense consists of one activity segment, i.e. the activities of the transmission system operator. Seeking for more transparency of the performed activities in formation of the profit and loss account the following products (services) are identified within the activities of the transmission system operator:

- transmission of electricity,
- sales of balancing/regulating electricity,
- sales of system services (capacity reserve services),
- fulfilment of public obligations service (POS) and
- other TSO products (services).

The electricity transmission, system services and POS prices are regulated by the National Control Commission for Prices and Energy (hereinafter referred to as the "Commission"); the prices of the balancing/regulating electricity shall be calculated under the procedure approved by the Commission.

### ***Transmission of electricity***

The main activities of LITGRID AB are performance of the function of the electricity transmission system operator in the country; for performance of such activities the company has obtained the electricity transmission licence valid for a term of unlimited duration. The company, assessing the supply reliability, quality, effectiveness, use, management and environmental requirements indicated in the National Energy Strategy, improving the conditions for use of the system, is planning a long-term development of the electricity system. LITGRID AB, as the operator of the transmission system, is responsible for the stability and reliability of the functioning of the energy system, the performance of the national balancing function and provision of system services in the territory of the Republic of Lithuania.

The national energy system did not encounter any major disturbances in 2010 though the changes in the energy balance upon decommissioning of Ignalina Nuclear Power Plant in 2009 caused Lithuania to become the electricity importing country instead of the exporter of electricity which was a serious challenge to the energy system.

The price caps for the electricity transmission service are set by the National Control Commission for Prices and Energy (hereinafter - the "Commission"). Pursuant to the Methodology of the Setting the Prices for Electricity Transmission and Distribution Services and their Respective Price Caps approved by the Commission Resolution No. O3-139 on 25 September 2009, the price caps were set for 3 years period of regulating and are corrected every year based on the efficiency ratios set by the Commission, the changes in inflation, transmitted volumes and other factors beyond the control of the Company. The price cap for the electricity transmission service set for the year 2010 is 2.67 c/kwh (excluding the price for the system services and POS).

The electricity transmission price for the consumers within the set cap is approved by the Board of the Company on the yearly basis. The non-differentiated price of the transmission system operator service in 2010 amounted to 2.667 c/kWh.

In 2010 as the transmission system operator LITGRID AB transmitted 9.26 billion kWh of electricity via the high voltage electricity grids for the national needs. After the first signs of the economy recovery the declined of the electricity transmission slowed down compared to the previous years: the transmitted volume of the electricity to the distribution networks was 8.2 billion kWh or 0.7 per cent less than in 2009, while the total transmitted volume of the electricity was 1 per cent higher than in 2009.

### ***Sales of system services (capacity reserve services)***

LITGRID AB warrants the reliable operation of the system and provides to the consumers the system (capacity reserve) services. Capacity reserve is necessary for the regulation of the frequency and electricity system flow balance and the generation of electricity, when in the unexpected cases electricity generation is reduced and consumption is increased.



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The Commission sets the prices:

- for the service sales by the electricity suppliers to ensure the provision of the capacity reserve and to maintain the reserve capacity in the spinning or cold-reserve electricity generation sources,
- for the system services consumers.

The price for the system services (capacity reserve) consumers set in 2010 was 0.74 c/kWh. This service to the consumers was delivered by the transmission service operator without surplus, i.e. the system price did not include TSO's relative fixed costs or profit margin. In 2010 for providing of the system services the average amount ordered by the transmission service operator was 351 MW of the secondary capacity reserve and 335 MW of the tertiary capacity reserve.

#### *Sales of balancing/regulating electricity*

The transmission system operator performs the national balancing function of the system. LITGRID AB organizes the trade of the balancing electricity, purchase and/or sells the balancing electricity necessary to maintain the national balance of the generation and consumption of the energy. The trade of the balancing electricity is carried out according to the procedure set out in the Electricity Trade Rules; the price is calculated in compliance with the Procedure of Calculating the Sales and Purchase Price of the Balancing Electricity approved by the Commission. An entity shall become the supplier of the balancing electricity upon entering into the balancing contract with the TSO for the sale and purchase of the balancing electricity.

The trade in regulating electricity is carried out at the regulating energy auction organized by the (TSO). The auction is used by the regulating electricity suppliers and transmission system operators from other countries. The energy market players may become the suppliers of the balancing electricity provided they are technically capable to promptly change electricity generation and consumption modes and have entered into a respective contract with the TSO. The TSO issues mandatory instructions regarding the change of the generation and/or consumption if the system national balance is not maintained during the operation hour.

#### *Provision of public obligations services (POS)*

*(Public obligation services (POS) provided in the energy sector are services of electricity companies, related to the social security, including the security, reliability and stability of the supply, the environmental protection, also to electricity generation using renewable energy sources and cogeneration.)*

LITGRID AB is responsible for the administration of the public obligations services (POS) in the energy sector. Performing its function of the POS funds administrator the TSO pays out the POS funds to the electricity companies providing the public obligations services at the prices defined by the Commission. The Commission also defines prices for the users of the POS. The price approved by the Commission in 2010 was 4.73 c/kWh and included several constituents:

- a part of the price, 4.06 c/kWh, was allocated to Lietuvos elektrinė AB in which the electricity generation is necessary to ensure the security of the electricity supply and to maintain the energy reserve;
- 0.4 c/kWh was allocated to support thermal power plants generating the electricity in the thermal mode in combined cycle cogeneration power plants;
- 0.48 c/kWh was allocated to support power plants using renewable energy sources (wind power plants, hydro-power plants and plants using biofuel and solar energy);
- the POS price was reduced by 0.22 c/kWh due to the planned and received but not used POS funds in 2008.

The Company was providing the POS administration services without surplus, i.e. the POS price did not include the transmission system operator's relative fixed costs or profit margin.

#### *Other services provided by the transmission system operator*

When a market player imports and/or exports electricity from third countries (non-European Union countries) to third countries (non-European Union countries), the electricity transmission system operator LITGRID signs with it a contract regarding access to transmission grid services. The price for this service is calculated pursuant to the provisions of the ITC Clearing and Settlement Agreement signed by the Europe transmission system operators, and is approved by the Commission.

#### *Lease, service and maintenance services of the transmission system property and its appurtenances*

LITGRID Turtas AB started to provide property lease, maintenance and other services which previously were provided by Lietuvos Energija AB according to the agreement. Pursuant to the spin-off terms this agreement was transferred to LITGRID Turtas AB.

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*Technical maintenance, repair and designing services of transmission grid facilities*

The Entities group of TETAS UAB, the subsidiary company of LITGRID Turtas AB:

- performs the technical maintenance and repair of electricity grid facilities;
- provides the construction services of new energy objects and the reconstruction services of the existing energy objects;
- provides the designing services of the electric facilities.

TETAS UAB provides its services to all business entities within the territory of the Republic of Lithuania. The main activity of this company complies with the requirements of ISO 9001:2008 and ISO 14001:2004. The Quality and Environment Protection Management System (hereinafter – QEPMS), implemented in the company in 2007, is applied for the operation of the electric facilities up to 400 V and the performance of the designing and construction works of the building part of the special designation constructions.

*Services of the market operator*

Seeking to establish free Lithuanian electricity market on 4 December 2009 LITGRID AB registered the subsidiary company BALTPPOOL UAB; on 28 December it was granted a licence to pursue the activity of electricity market operator. The activity of the Lithuanian electricity market is organized based on the principles of Nord Pool Spot - electricity power exchange operating in the Nordic countries.

The establishment of the Lithuanian power exchange was a significant step towards the creation of the efficient electricity market of Lithuania as a part of common electricity market of the Baltic sea region and Continental Europe. The rise of the harmonized and operational energy market ensures the efficient use of the existing infrastructure and public availability of the reasonable price for electricity. The electricity price level in the liquid harmonized market is the one of best methods to assess the necessity and benefits of the strategic infrastructure projects, while the ration of electricity supply and demand dominating in the exchange is a clear signal to investors in pursue of attracting investments for development of the new generation sources.

The Lithuanian power exchange, administered by BALTPPOOL UAB, is the venue where international trade takes place. The participants of the exchange are electricity producers and suppliers from Lithuania and neighbouring power systems trading in the electricity generated in Lithuania or imported from abroad which is purchased for consumption in Lithuania and for export to neighbouring energy systems.

The main function of BALTPPOOL UAB is to organize electricity trade. The market operator:

- performs registration of the bilateral agreements between the players of the wholesale market;
- files instructions for electricity trading in the exchange and sets the order of realization priority;
- records the transaction of the bilateral agreements and auction trade;
- presents the results of the electricity trading to the market players and supervising institutions;
- organizes the settlements among market players.

Administered by BALTPPOOL UAB, the wholesale electricity trade in Lithuania is carried out in two ways: the trade at Lithuanian power exchange and bilateral agreements between electricity producers and suppliers. BALTPPOOL UAB organizes wholesale electricity trade at the Lithuanian power exchange in cooperation with Nord Pool Spot – the power exchange operating in the Scandinavian countries.

Lithuanian power exchange is organized based on the principles of the Scandinavian power exchange Nord Pool Spot. The trade is carried out on a day-ahead basis: all electricity supply agreements are arranged day-ahead for each hour of the following day.

The traders of the exchange are charged commissions based on the trading volume. The commissions are paid each week in proportion to the volume of the electricity traded by the exchange participant during preceding week. The amount of trading volume commissions is defined in Appendix No. 6 *Trading fees* to the Rulebook of the Lithuanian power exchange. At present the trading volume commission is EUR 0.03 per megawatt hour of electricity sold or bought at the exchange (a bit over 0.01 c/kWh).

BALTPPOOL UAB provides its services to the transmission and distribution systems operators, electricity producers and suppliers.

The trade at the Lithuanian power exchange in 2010 amounted to 8118 million kWh.

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### **Transmission system operator's customers and their groups**

Regarding the provided services the customers of LITGRID AB may be divided into the following groups:

#### *Users of the transmission grid:*

- distribution networks operators – Rytų skirstomieji tinklai AB and VST AB (LESTO AB since 1 January 2011), E TINKLAS UAB, State enterprise Visagino energija (until 31 October 2010);
- electricity producers – Vilniaus energija UAB, Kauno termofikacijos elektrinė UAB, Kauno energija AB, Panevėžio energija AB, Lietuvos Energija AB, Lietuvos elektrinė AB; power plants and parks of renewable energy sources supplying the electricity to the transmission grid of the transmission system operator;
- consumers – legal entities having their facilities connected to the transmission grid of the transmission system operator and buying electricity for their consumption needs – Achema AB, Akmenės cementas, Kauno vandenys UAB, Korelita UAB, Lifosa AB, ORLEN Lietuva AB, etc.

#### *Balancing energy suppliers:*

- electricity producers – Vilniaus energija UAB, Kauno termofikacijos elektrinė UAB, Kauno energija AB, Panevėžio energija AB, Lietuvos Energija AB, Lietuvos elektrinė AB;
- suppliers – Enefit UAB, Inter Rao Lietuva UAB; Lifosa AB, ORLEN Lietuva AB, etc.

As of the end of the year 2010 the Company had in total 19 suppliers of the balancing energy.

#### *Capacity reserve suppliers:*

- electricity producers – Vilniaus energija UAB, Kauno termofikacijos elektrinė UAB, Lietuvos Energija AB, Lietuvos elektrinė AB;
- suppliers – Inter Rao Lietuva UAB; ORLEN Lietuva AB.

#### *Transmission system operators from other countries:*

- the Estonian transmission system operator Elering OÜ, the Latvian transmission system operator Augstsprieguma tīkls AS, the Belarusian transmission system operator Belenergo GPO.

### **Long-term investments**

In 2010 LITGRID AB rented the property from Lietuvos Energija AB (since 1 December – from LITGRID Turtas AB) for the performance of its function as a system operator. The owner of the property – Lietuvos Energija AB and LITGRID Turtas AB since 1 December 2010 – ensured the operation, maintenance, reconstruction and development of the long-term assets used in the activity of the electricity transmission.

The investment in the property to be used in the transmission activity in 2010 amounted to LTL 66 million. The major portion of the investment was allocated for the reconstruction and expansion of the transmission grid (78 per cent); the investment in the strategic projects indicated below accounted for 17 per cent of the total investment. The connection of 330 kV Bitėnai switchyard (Pagėgiai elderate) to the Lithuanian transmission system was completed in the end of the year. The new infrastructure provides for transmission of electricity to Klaipėda region via the electric facilities located only within the territory of Lithuania. It was very important step seeking to ensure the security of the electricity transmission system of Lithuania and to connect the power systems of the Baltic Sea region States into the Baltic Electricity Ring. Also in 2010 the reconstruction was completed of 110/10 kV Ignalina SS, 110/10 kV Merkinė SS and 110/35/10 kV Šakiai SS 110 kV switchyards.

The focus in the energy sector, which is the main in pursue of the common goals of the State energy policy, is on the implementation of the strategic initiatives ensuring the integration of the Lithuanian power systems into the EU electricity market and having vital effect in seeking the independence of the Lithuanian energy supply:

- Lithuania–Poland interconnection LitPol Link;
- Lithuania –Sweden interconnection NordBalt;
- Connection of Lithuania, Latvia and Estonia power grids with the continental network of Europe for the operation in synchronized mode;
- Integration into the European electricity markets;
- Reinforcement of the internal power network of Lithuania.

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The cooperation agreement on the implementation of NordBalt interconnection project, entered into with the Swedish electricity transmission system operator Svenska Kraftnät in March of 2010, foresees that the cooperation of the parties will include the stages of planning and construction of the interconnection while the infrastructure created during the construction of the interconnection will be shared between the parties – the Lithuanian transmission system operator shall own the current converter in Klaipėda substation, the cable from Klaipėda substation to the sea and 50 per cent of the sea cable. The respective part of the cable and the infrastructure of the interconnection on the Sweden side shall be owned by Svenska Kraftnät.

On 5 August 2010 the grant of EUR 131 million was assigned to the NordBalt interconnection by the decision of the European Commission. In December of 2010 after the procurement procedure ABB company was awarded the contract for the production and installation of the cable for electricity interconnection and the construction of the converter stations.

In 2010 the preparatory works for the implementation of Lithuania-Poland LitPol Link power interconnection project were continued: the territorial planning works – assessment of impact on environment (AIE), the special plan for 400 kV line Alytus – the Lithuanian border and the detailed plan for the expansion of Alytus substation with direct current link. The report on AIE was prepared and approved on 30 December 2010. In December of 2010 the detailed plan for the expansion of Alytus substation was prepared and started to be publicized; the issues of land ownership regarding the substation expansion were resolved. The technical feasibility study on Alytus substation expansion with direct current link was completed in December of 2010 and planned for approval in the beginning of 2011. In December 2010 the financial and operation model of LitPol Link interconnection was completed and agreed upon by LITGRID AB and Poland PSEO and now is being prepared for approval.

The grant of EUR 2.37 million from the European Union TEN-E fund was received for Alytus substation reconstruction and expansion and the preparation of the technical design of the line Alytus – the State border; other works of this project were financed from the previously allocated grant of EUR 2 million from the fund for Decommissioning Ignalina Nuclear Power Plant administered by the European Bank for Reconstruction and Development.

#### **Risk factors related to the activity of the issuer**

##### ***Political risk factors***

The Group is engaged in the energy sector, the industry of special economic and political importance for the State national interests subject to the regulation by the State, and among other things, in the implementation of the energy policy objectives, goals and legislative norms of the European Union. The management, structure and functioning of the energy sector in the Republic of Lithuania is under the regulation of the Law on Energy and the legal instruments.

It shall be pointed out that any amendments of the legal instruments regulating the energy sector either at the European Union or national level may result in the changes of the Group operation. There is either no guarantee of avoiding negative impact on the operation, results and/or financial situation of the Company due to any changes in the legal environment.

The State indirectly, via Visagino atominė elektrinė UAB, holds 97.5 per cent of Company capital and the election of the board members of the Company depends on its representatives voting. The State representatives may control the management of the Company and the Group and implement the State policy in the energy sector. It means there is no guarantee of avoiding the adoption of decisions at the implementation of the State policy in the energy sector that may have essential effect on the operation and financial situation of the Company and the Group. Furthermore, such decisions may not always be in line with the opinions and interests of other shareholders of the Company.

##### ***Economic risks***

The Group may feel the ongoing negative influence of the recent economic crisis consequences which condition the decline in the energy demand and in the demand of services provided by the Group, and TETAS AB is receiving less order for the services. Besides, another economic risk factor of significance to this company is the risk of market prices changes for the facilities, equipment, materials and works used in designing, installation and adjustment.

##### ***Financial risks***

At the performance of the activity the Group companies may encounter the financial risk, i.e. credit risk, liquidity risk and market risk (foreign currency risk, interest rate risk with respect of the fair value and cash flow, securities price risk). At managing such risks the Group companies seek to mitigate the influence of the factors that may have negative impact on the financial results of the Group activity.

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#### Credit risk

The credit risk of the Group and the Company is limited in relation to the receivables because their key accounts are reliable customers. As of 31 December 2010 the credit quality of non-overdue and not impaired trade receivables is high due to the major share of the receivables from the distribution network operators and large industry companies. The Group and the Company have a significant credit risk concentration, because credit risk is shared among 10 main customers, which account for approximately 96 and 99 per cent of the total Group's and the Company's trade receivables. In pursue to mitigate the credit risk LITGRID AB has a provision in the agreements with buyers – the balancing electricity suppliers – for the fixed deposit or bank guarantee. The Company does not require the deposit or bank guarantee from the buyers with the binding counter obligations. BALTPPOOL UAB applies the demand for the deposit and/or guarantee from the energy exchange participants according to the settlement terms provided in the Lithuanian Day-Ahead Electricity Market Regulations.

The credit risk of the Group regarding the funds at the banks is limited because the companies transact with the banks assigned the high ratings by the foreign rating agencies: cash and term deposits are held in the accounts of the major banks of Lithuania assigned higher than A- external credit rating by Fitch Ratings.

#### Liquidity risk

The liquidity risk is managed by planning the cash flow of the Group. The cash flow forecasts are introduced for the liquidity risk management. The overdraft and credit line agreements may be used as the tools to control the overdue receivables risk and the mismatch of short-term cash flow (revenue and due payments).

The liquidity ratio (current assets/current liabilities) and the quick ratio (current assets – inventory)/current liabilities) of the Group as of 31 December 2010 was 1.51 and 1.49 respectively. The liquidity ratio (current assets/current liabilities) and the quick ratio (current assets – inventory)/current liabilities) of the Company as of 31 December 2010 was 1.50 and 1.46 respectively.

#### Market risks

##### *Interest rate risk*

The Company and the Group does not experience significant interest rate risk, because main interest bearing financial assets are term deposits with fixed interest rates. Guarantees on the fulfilment of obligations received by the Group are held at bank and bear interest linked with VILIBOR. The impact on Group's profit before tax of 1 per cent increase/decrease in interest rate would be LTL 90 thousand as at 31 December 2010.

##### *Foreign currency rate risk*

Seeking to control the foreign currency rate risk the Group aims to enter into credit agreements exceptionally in EUR or LTL. The purchase/sales transactions of the Group are also concluded mainly in EUR or LTL. Since 2 February 2002 Litas was pegged to Euro. Due to this reason the changes in the exchange rate of the foreign currency has no essential influence on the equity of the Company and the Group.

##### *Securities price risk*

The point shall be made that the world securities markets, including Lithuania, are under ongoing influence of the financial crisis consequences causing huge fluctuations of the securities prices in many of the world securities markets. There are no assurances or guarantees as to the end of this crisis or even worse recession.

As at 31 December 2010, the Company does not encounter the security price risk.

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### Technical-technological risk factors

The Lithuanian energy system has many interconnecting system lines with the neighbouring power systems. The available power and balancing facilities are rather scarce therefore the management of the capacity and power balancing is quite complicated. Though about four 110 kV transformer substations in average are renovated every year, but till 2002 the investments into the transmission network objects were rather limited, therefore about 50 percent of all the equipment in transformer substations is older than 25 years. 35 percent of all the 110 kV overhead lines and 24 percent of all 330 kV overhead lines are older than 45 years. Failures and breakdowns of the most important technological facilities used in the activities of the Group can have a direct adverse effect on the scope of business and sales of the Group and have a negative effect on the financial situation and the business results of the Group.

### Ecological risk factors

The Group, in performance of its activities, follows environmental protection rules providing for proper marking, use and storage of hazardous substances used by it, ensures that the facilities operated by it meet the requirements applicable to their use. The work in operated objects, where there is more risk of environmental damage due to the volumes of emitted pollutants or production of waste, is carried out in accordance with Integrated Pollution Prevention and Control (IPPC) permits issued to the Company by regional environmental protection departments. The environmental protection rules oblige the Company to introduce procedures and technologies preventing or reducing possible environmental pollution, also as safe liquidation of the unavoidably caused pollution as possible. In addition to the liability for its current activities, the Group may also be held liable for any of its past activities if it turned out that such activities caused damage to the environment. Besides, any changes in national or international environmental protection regulation can oblige the Group to introduce measures that would be in conformity with new standards. This may demand additional investments and have a significant effect on the activities, financial situation and results of the Group.

The Group currently complies with all environmental protection requirements applicable to it.

### Analysis of financial and non-financial performance results of the Group of Entities, information related to environmental and personnel matters

#### Analysis of financial and non-financial results

The performance results of the Company's group of Entities are given in the table below.

	LITGRID Turtas AB (from the date of incorporation)	LITGRID Turtas AB group (from the date of incorporation and acquisition of subsidiaries)	LITGRID AB group (from 1 January 2010)	TETAS UAB group (from 1 January 2010)
<b>Financial results (in thousands of litas)</b>				
Electricity related sales revenue	11,154	90,266	896,821	0
Other operating income	290	6,969	16	24,798
EBITDA *)	5,391	18,148	82,399	1,123
Operating profit	(9,622)	3,067	80,958	589
Net profit	(8,203)	2,373	69,571	381
Cash flow from ordinary activities	(348)	(5,537)	75,646	(265)
Financial liabilities	0	0	0	0
<b>Financial structure (%):</b>				
Owner's equity/assets (%)	86.5	81.7	35.1	57.9
Liabilities/owner's equity (%)	13.4	20.2	184.9	78
Financial liabilities/owner's equity (%)	0.0	0.0	0.0	0.0
Financial liabilities/assets (%)	0.0	0.0	0.0	0.0
<b>Margins and profit rate:</b>				
EBITDA (%)	47.1	18.7	9.2	4.5
Free cash flows (FCF)/revenue (%)	(5.7)	(6.1)	8.3	(3.3)
Average return on equity (%)	(0,4)	0,1	158.7**)	4.4
Average return on assets (%)	(0,4)	0,1	38.7**)	2.5
Earnings per share (LTL per share)		0.01	7.14	0.07
Book value per share at the end of the year, LTL	3.7			
Market value per share at the end of the year, LTL	2.48	-	-	-

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Non-financial results				
<b>Quality of electricity transmission services:</b>				
END, MWh (volume of electricity not transmitted due to loss of connections)***			11.625	
AIT, in minutes (average interruption time) ***			0.488	
<b>Technological expenses in the transmission network, (%)</b>			2.09	

\* Profit before tax + interest expenses – interest income – dividend received + depreciation and amortisation + fixed and current assets impairment loss and write-offs expenses.

\*\* LITGRID AB profit rate does reflect the profit rate of all the activities of the transmission system operator, as some of operating expenses in connection with this activity were attributed to another company, i.e. to Lietuvos Energija AB. LITGRID AB received income from all the activities performed by the transmission operator, whereas the owner of the assets Lietuvos Energija AB (in December, LITGRID Turtas AB) was paid for the lease of the assets and for the assets maintenance services.

\*\*\* Only for reasons attributable to the operator's liability and non-identified reasons.

The main Entities of the Group commenced their activities on 1 January 2010 (LITGRID AB) and on 1 December 2010 (LITGRID Turtas AB), therefore, there is no data for 2009 for comparison purposes.

According to the requirements for electricity transmission reliability and quality of services approved by the National Control Commission for Prices and Energy, the following indicators are used for establishing the electricity transmission reliability level: END, i.e. volume of electricity not transmitted, which shows the volume of electricity that was not transmitted due to loss of connections during the reporting period, and AIT, i.e. the average interruption time, which shows the average duration of interruptions during the reporting period. The minimum level of reliability determined for 2010 was as follows: for reasons attributable to the operator's liability and non-identified reasons END had to be no more than 14 MWh (actually it was 11.625 MWh), AIT had to be no more than 0.49 minutes (actually it was 0.488 minutes).

#### Balance sheet

As of 31 December 2010 the Group had no financial liabilities to credit institutions, its cash and term deposits amounted to LTL 118.7 million.

#### Profit and loss account

#### Income

The income of the Group during the period from the date of incorporation of LITGRID Turtas AB and acquisition of subsidiaries till the end of 2010 amounted to LTL 97.2 million.

The income of LITGRID AB group of Entities during the full year 2010 amounted to LTL 896.8 million. POS accounted for the major part in the structure of income, i.e. 51.3 percent of all the income. The income received from performance of the main activities, i.e. transmission of electricity, was LTL 257.1 million or 28.7 percent of all the income.

TETAS UAB group of Entities received LTL 24.8 million as income in 2010.

#### Expenses

The expenses of the Group during the period from the date of incorporation of LITGRID Turtas AB and acquisition of subsidiaries till the end of 2010 amounted to LTL 94.2 million.

The expenses of LITGRID AB group of Entities amounted to LTL 815.9 million. The expenses of purchase of electricity and related services accounted for the major part of the expenses of this group of Entities (LTL 597.8 million or 73.3 percent). The company, renting the assets used in the transmission business from the owners of such assets, i.e. from Lietuvos Energija AB (in January – November 2010) and from LITGRID Turtas AB (in December 2010), incurred expenses in the amount of LTL 123.7 million (15.2 percent of all the expenses).

The expenses incurred by TETAS UAB group of Entities in 2010 amounted to LTL 24.2 million, the major part of such expenses was received from subcontractors, purchases of materials and raw materials – LTL 10.2 million.

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#### *Profit*

In the period from the date of incorporation of LITGRID Turtas AB and acquisition of subsidiaries till the end of 2010, according to the International Financial Reporting Standards, the Group's profit before tax amounted to LTL 2.9 million and the net profit – to LTL 2.4 million.

In 2010, according to the International Financial Reporting Standards, the profit before tax of LITGRID AB group of Entities amounted to LTL 81.9 million and the net profit – to LTL 69.6 million.

The profit rate of LITGRID AB seems very high, but it does not reflect the profitability of all the activities of the transmission system operator, as some of the expenses in connection with this activity were attributed to another company – Lietuvos Energija AB. LITGRID AB received income from all the activities of the transmission operator, whereas the owner of assets Lietuvos Energija AB (in December, LITGRID Turtas AB) was paid for the lease of the assets and assets maintenance services.

The profit before tax of TETAS UAB group of Entities in 2010 amounted to LTL 0.38 million.

#### *Dividend policy*

The Group has no formal dividend payment policy. The Government of the Republic of Lithuania, that indirectly (through Visagino Atominė Elektrinė UAB) holds 97.5 percent of shares of the Company, by its Resolution No. 20 of 14 January 1997 (version of Resolution No. 1451 of 3 December 2001) has set principles of distribution of dividend for state-owned shares. As for the future, the dividend distribution policy will also depend on the success of implementation of the strategic projects (the interconnections Litpol Link, NordBalt; connection of the power grid to the grid of the Continental Europe for operation in the synchronic mode).

#### *Cash flow statement*

The net cash flows of the Group, received from the main activities in the period from the date of incorporation of LITGRID Turtas AB and acquisition of subsidiaries till the end of 2010, were negative and amounted to LTL (5.5) million, the net cash flows of the Group from investment activities during the same period amounted to LTL (17.4) million, the net cash flow was LTL (23.1) million.

The cash flows in LITGRID AB group of Entities during the full year 2010 were as follows:

- net cash flows from the main activities amounted to LTL 75.6 million;
- net cash flows from investment activities amounted to LTL (44.5) million, they were determined by the increase of term deposits by LTL 43 million. It is noteworthy that investments into fixed tangible and intangible assets, that have been specified above, were made by the owners of the assets – Lietuvos Energija AB (in January – November 2010) and LITGRID Turtas AB (starting from December 2010) according to the agreement made with LITGRID AB, therefore these investments are not reflected in the cash flows from investment activities;
- the net cash flow during the reporting period amounted to LTL 31.1 million.

The net cash flow of TETAS UAB group in 2010 was LTL (0.1) million.

#### *Principal features of internal control and risk management systems*

The Company receives and analyses financial statements of subsidiaries on a monthly basis. Financial statements of subsidiaries are incorporated into consolidated financial statements. The Company Chief Financier controls that financial statements are properly consolidated and drafted, ensures that the data collected from Group companies are correct and timely. The consolidated financial statements are reviewed by the Director of the Finance Department. Preparing of the Company's financial statements, internal control and financial risk management systems, legislation governing, preparing of consolidated financial statements are controlled and managed.

#### **Staff and environmental matters**

##### ***Staff***

As of the end of 2010 the Group Entities (excluding TETAS UAB group of Entities) employed 210 persons. Employees of LITGRID Turtas AB accounted for 54 per cent of the total number of employees, while employees of BALTPPOOL UAB and LITGRID AB – for 46 per cent. The majority of the staff was transferred from the respective divisions of Lietuvos Energija AB to LITGRID AB and BALTPPOOL UAB after their establishment, i.e. on 1 January 2010. Due to it, the statistical turnover of employees of LITGRID AB in 2010 was only 1.4 per cent, including dismissals by mutual agreement, at the request of the employee, etc.



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Almost all employees were transferred from the respective divisions of Lietuvos Energija AB to LITGRID turtas AB as soon as it was established, i.e. on 1 December 2010.

As of the end of 2010 TETAS UAB group of companies employed 408 persons. At the beginning of 2010 TETAS UAB had 118 employees: 56 employees were dismissed and 322 employed within a year. The organisational structure and the number of employees of this company substantially changed at the end of 2010 when due to the reorganisation of the power sector some of the employees were transferred to the company from the respective divisions of Lietuvos Energija AB.

**Employees (the number of employees at the end of the reporting period or the average number of employees; changes over the last financial year; determinants of important changes (more than 10 per cent); grouping of employees by education; the number of executive personnel, specialists and workers; the average monthly salary of each group of employees before taxes; special rights and obligations of the issuer's employees or any part thereof laid down in employment or frame agreements).**

*Number of employees and monthly salary (excluding TETAS UAB group of Entities)*

The payroll fund in the reporting year amounted to LTL 6,195 thousand.

	Number of employees at the end of the year	Average monthly salary, LTL
Workers	0	0
Specialists	188	4,167
Executive personnel	22	10,456
<b>Total</b>	<b>210</b>	<b>4,972</b>

*Education of employees by group at the end of the period (excluding TETAS UAB group of Entities)*

	2010
Number of employees	210
of which have:	
higher education	191
post-secondary education	11
secondary education	8
incomplete secondary education	-

### **Social initiatives and policy of the Company**

The Company, being aware that socially responsible business is beneficial to the socio-economic development of the society, has taken over the best practices of the social policy and the principles of environmental protection and transparent business from the Group Entities, and integrated them into its internal processes and external relations. At the initial stage of the creation of the Company's organisational culture the focus is on employees, their development, adaptation and comfortable working environment.

LITGRID has taken over persons who has developed their creativity and responsibility in Lietuvos Energija AB. Regular training, qualification refresher courses and the environment where every employee can improve their abilities helped to form a team of highly qualified specialists and made the Company one of the most attractive employers that is able to offer specialists the best career plans.

The Company approved a frame agreement signed with trade unions. This agreement defined and ensured a fair payroll policy, regulated socio-economic relations between the employer and the employee.

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### **Environmental protection**

Fulfilling environmental requirements the Company must properly perform waste and waste-water management and implement preventive measures to ensure the safe environment. The principal environmental requirements set to the Company include safe use of ecologically hazardous substances, waste and contaminated waste-water management, adjustment of power facilities and constructions to the environment.

The Company organises environmental activities in accordance with administrative documents governing waste and waste-water treatment and safe use of chemical substances by establishing environmental requirements to objects to be built or being reconstructed and acting in conformity with Integrated Pollution Prevention and Control (IPPC) permits.

The Company carried out waste management, maintenance of waste-water treatment facilities and chemical tests of waste-water through licensed companies. In October 2010, the operation transmission grid facilities together with organisation and performance of environmental works were taken over by contractors (TETAS UAB and Elektros tinklo paslaugos UAB). However, the Company is still responsible for fulfilling requirements and performing duties provided for in environmental rules, and drawing up of the mandatory reports.

The main hazardous waste produced includes insulating oil and waste related to the use of such oil (oil-contaminated effluent, sludge collected in treatment plants and contaminated by oil products, unusable oil waste, compressor oil and water emulsion, absorbents and oil-contaminated cloths), accumulators, luminescent lamps, remains of various chemical substances, etc. The Company performs constant control of the treated waste-water discharged to the environment by performing chemical tests in accordance with the standards established in the Integrated Pollution Prevention and Control permit or the Waste-Water Treatment Directive. The Company also has contracts with specialised companies for maintenance of rainwater and domestic waste-water treatment plants.

Designing of new structures or reconstruction of the old ones (transformer substations, switchyards, electricity transmission lines, etc.) is subject to environmental requirements. The Company aims at choosing environmentally-friendly equipment or equipment of a lower environmental impact over the equipment using non-environmentally friendly substances (e.g. oil circuit-breakers are replaced by gas circuit-breakers). When buying contractors' services, contractors are committed to manage waste produced during construction and provide the Company with the supporting documentation.

Two internal auditors of TETAS UAB employed by the company carry out internal audits and assess the effectiveness of the integrated environmental management system in the company's manufacturing activities. The company also keeps records in relation to environmental protection, and disposes of hazardous waste.

### **References and additional explanatory notes regarding the data provided in the consolidated financial statements**

The notes to the financial statements for the year 2010 explains the financial information in more detail.

### **Significant events after the end of the financial year**

In the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB held on 24 January 2011 it was decided to reorganise LITGRID Turtas AB and LITGRID AB by way of merger, joining LITGRID AB, which after the reorganisation would terminate its operation as a legal entity, to LITGRID Turtas AB, which after the reorganisation would continue its operation and take over the assets, rights and duties of LITGRID AB. The General Meeting of Shareholders approved the conditions for reorganisation of LITGRID Turtas AB and LITGRID AB.

On 1 March 2011 at 00.00 LITGRID Turtas AB took over all assets, rights and duties of LITGRID AB as defined in the conditions for reorganisation of LITGRID Turtas AB and LITGRID AB.

On 28 January 2011 LITGRID Turtas AB applied to the National Control Commission for Prices and Energy for a power transmission licence.

In the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB held on 04 March 2011 it was decided to change the name of LITGRID Turtas AB to LITGRID AB.

The General Meeting of Shareholders of TETAS UAB held on 1 February 2011 adopted a resolution to delegate to the Board of the company to apply to the shareholders for approval of drafting conditions for reorganisation of the company (*which after the reorganisation would continue its operation*) and Energetikos pajėgos UAB (*which after the reorganisation would terminate its operation*), where reorganisation of Energetikos pajėgos UAB by way of merger is provided for as defined by Article 2.97(3) of the Civil Code of the Republic of Lithuania, by joining Energetikos

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pajėgos UAB to the company in the manner that after the reorganisation all its assets, rights and duties are transferred to the company.

Board of TETAS UAB is planning to convene an ordinary shareholders meeting of the company on March 21-28, 2010 for approval of merger of Energetikos pajėgos UAB and TETAS UAB from April 1, 2010.

#### **Activity plans and forecasts of the Group of Entities**

In 2011, prior to the reorganisation of LITGRID Turtas AB and LITGRID AB as well as to merging of LITGRID AB to LITGRID Turtas AB, the Group will continue its activities performed in 2010, i.e. it will perform functions of the transmission system operator and the activities of electricity market operator BALTPPOOL UAB.

After the reorganisation LITGRID AB will terminate its operation as a legal entity, and LITGRID Turtas AB will continue its activities. LITGRID Turtas AB will take over all assets, rights and duties of LITGRID Turtas AB.

The Company does not have any information on significant risks or contingencies that may occur when LITGRID Turtas AB continues operating as a transmission system operator.

In 2011 the Company will continue its works in NordBalt and LitPol Link interconnections projects; the investments into reconstruction of the transmission grid will be no less than in 2010.

The income from the transmission activity will be affected by the fact that the National Control Commission for Prices and Energy has reduced the price-cap for the transmission service by 13%, i.e. from 2.67 c/kWh to 2.32 c/kWh. The new price became applicable on 1 January 2011. The Board of the Company approved the average price of the transmission service for consumers, which is the equal to the price-cap – 2.32 c/kWh.

BALTPPOOL UAB will expand its activities in 2011 by using its experience and know-how in the development of the gas market and the creation of the market for long-term contracts.

BALTPPOOL UAB organises a day-ahead electricity exchange in cooperation with the Nordic electricity exchange Nord Pool Spot providing exchange platform lease services. In implementation of the BEMIP plan and in attempt to create a common integrated Baltic power market, it is foreseen to transfer the activity of the day-ahead electricity exchange to Nord Pool Spot by creating a Nord Pool Spot price zone in Lithuania.

BALTPPOOL UAB also intends to develop the secondary gas exchange in 2011. Trade in the gas exchange is based on the same principles therefore such exchange would create a competitive natural gas market already at the initial stage. As there are no alternative gas suppliers yet, the existing market participants will participate in the secondary gas market, where they will be able to acquire additional gas volumes or sell gas volumes that they bought under bilateral contracts with suppliers but did not manage to consume. Later, after projects of the gas interconnection with Poland and the liquefied gas terminal in Klaipėda are implemented, the gas exchange will trade in gas from different sources, thus making the gas exchange an instrument which allows providing gas under the competitive market conditions.

BALTPPOOL UAB is getting ready for another stage of the electricity market development – introduction of the market for long-term electricity contracts. The electricity exchange currently operating in Lithuania allows trading in electricity for the next day, but market participants also want to trade in electricity for a longer period. To this end, BALTPPOOL UAB plans to create a market for long-term contracts, where market participants could trade in electricity for a longer period. Such market would trade in financial products, meaning that electricity exchange would trade in electricity, and parties to long-term contracts would settle their accounts for the differences in prices between the exchange price and the contract price. The market for long-term contracts would operate similarly as the electricity exchange – market participants would centrally submit orders and the trade system would calculate the prices and make them available to the public.

Considering the fact that in 2011 the economic decline will still have effect at the macroeconomic level and on business, TETAS UAB will aim at preserving its positions in the competitive market by using the human resources. As the labour market still is not able to supply qualified labour force, the company draws guidelines for improvement of qualifications, establishment and development of partnerships with foreign partners in relation to supply of equipment.

#### **Information about research and development activities of the Company Group**

To carry out the technically and economically grounded investment policy the Company, on the annual basis, draws up research and development programmes for development of the electricity system and improvement of the effectiveness of the transmission network. These programmes are implemented mainly through long-term investments into construction of new power objects in the transmission system or development and modernisation of

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the existing ones. One of the main tasks is to reconstruct power objects by replacing old equipment with the new and modern one and implementing the modern relay protection, systemic automation, control, information collection and transfer systems.

Every year the Company draws up perspective plans for new construction and modernisation works. Such plans are drawn up in accordance with the Law on Electricity of the Republic of Lithuania, the National Energy Strategy approved by the Parliament of the Republic of Lithuania, scientific studies and other research. Long-term investment plans serve as a basis for annual investment plans.

The Company performed the assessment of investment plans 2010–2020 which aimed at:

- analysing the auditor's report on the state of the Company's facilities;
- assessing the methodology for establishing the priority sequence of reconstruction of transformer substations;
- assessing the network development plan;
- assessing the investment plan and schedule for 2010–2020;
- producing recommendations and proposals on amendments to the investment plan with regard to the effectiveness of the electricity system.

In 2010, the Group bought scientific research study "Study on the Long-Term Isolated Operation of the Baltic States" for LTL 140,000.

The Group companies have no important patents.

**Number and nominal value of the shares of the parent company owned by the company itself, its subsidiaries or persons acting on assignment thereof, but on their own behalf**

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

**Other information about the issuer**

**Structure of the issuer's authorised capital (number of shares, nominal value per share, classes of shares, rights and obligations granted by each class of shares, percentage comprised by individual class of shares in the entire share capital)**

The authorised capital of the Company registered in the Register of Legal Entities on 16 November 2010 amounts to LTL 504,331,380. It is divided into 504,331,380 ordinary registered shares of one Litas nominal value each. All the shares are fully paid up.

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

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

- to receive a part of the Company's profit (dividend);
- to receive a part of assets of the Company in liquidation;
- to receive shares without payment if the authorised capital is increased from the Company's funds, unless the Law on Companies of the Republic of Lithuania provides for otherwise;
- to have the pre-emption right to acquire newly issued shares or convertible debentures of the Company, except for the case where the General Meeting of Shareholders decides to withdraw the pre-emption right for all the shareholders in accordance with the procedure provided for by the Law on Companies of the Republic of Lithuania;
- to lend to the Company in the manner prescribed by law; however, when borrowing from its shareholders, the Company has no right to pledge its assets to the shareholders. When the Company borrows funds from the shareholders, the interest rate must not exceed the average interest rate offered by commercial banks of the locality where the lender has his/her place of residence or business, which was in effect at the time of signing the loan agreement. In such a case the Company and the shareholders shall be prohibited from negotiating a higher interest rate;
- to transfer all or any part of the shares to other persons;
- to request that other shareholders sell their shares to them or that other shareholders buy their shares on a mandatory basis in the cases and according to the procedure set forth by the Law on the Securities Market;
- other property rights established by law.

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

- to attend General Meetings of Shareholders;
- to vote at General Meetings of Shareholders in exercise of the voting rights carried by their shares. One ordinary registered entitles to one vote;
- to obtain information on the Company to the extent defined by law;

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- to file a claim with the court for indemnification of the damage to the Company resulting from non-performance or improper performance by the Company's Manager and Board members of their duties prescribed by law and the Articles of Association, as well as in other cases laid down by law;
- other non-property rights established by law.

**Number and nominal value and portion of the authorised capital comprised by own shares, acquired and transferred during the reporting period**

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

**Any restrictions on transfer of securities (e.g., restrictions applied to blocks of securities or requirements for obtaining the approval of the Company or other owners of securities)**  
None

**Information on shareholders (specify the date): the total number of shareholders; shareholders owning or controlling more than 5 per cent of the issuer's authorised capital at the end of the reporting period (names, last names of natural persons, names of companies, legal forms, company codes, office addresses), the number of shares owned by shareholders by class, the portion of the authorised capital and of votes held in per cent (specify the percentage of votes granted by shares owned by each individual and the percentage of indirectly held votes separately)**

As of 31 December 2010, the total number of shareholders was 6,020. The shareholders as of 31 December 2010 holding more than 5 per cent of the authorised capital of LITGRID Turtas AB (LTL 504,331,380):

Company	Type of shares	Number of shares	Share of the authorised capital (%)	Voting interest (%)
Visagino atominė elektrinė UAB, Žvejų g. 14, LT-09310 Vilnius, company code 301844044	Ordinary registered shares	491,736,153	97.5	97.5

**Shareholders holding special rights of control, and descriptions of these rights**  
None

**Any restrictions on voting rights (e.g., restrictions on voting rights of persons holding a certain percentage or number of votes, deadlines by which the voting rights may be exercised or schemes according to which property rights granted by securities are separated from possession of securities)**  
None

**All mutual agreements of shareholders of which the issuer is aware and due to which the transfer of securities and/or voting rights might be restricted**  
None

**Information on branches and representative offices of the Company**  
None

**Authorisations of issuer's bodies to issue and buy in issuer's shares**  
None

**Information on the rules governing election and replacement of members of the Board, also procedure for amendment to the Articles of Association of the Company**

The Articles of Association of the Company are amended following the procedure established by the Law on Companies of the Republic of Lithuania which lays down that the right to amend the Articles of Association shall be vested exclusively in the General Meeting of Shareholders. Adoption of amendment to the Articles of Association requires 2/3 majority vote of the shareholders attending the meeting.

The Board consists of 5 (five) members. The Board is elected for the term of 4 (four) years. The term of the Board commences upon termination of the General Meeting of Shareholders that elected the Board and expires on the date of the General Meeting of Shareholders to be held in the last year of the term of the Board. If the Board is recalled, resigns or ceases the performance of its duties due to any other reasons prior to the end of the term, a new Board is elected for the remaining term of the Board that ceased the performance of its duties. If single members of the Board are to be elected, they are elected only for the remaining term of the functioning Board.

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While nominating candidates to the Board members, the nominating shareholder of the Company (proxy thereof) is bound to provide the General Meeting of Shareholders with written explanations as to the qualification, management experience and suitability of each candidate for the Board to take the position of the member of the Board of the Company.

Each candidate for the Board submits to the General Meeting of Shareholders his/her written consent to run for the Board and a declaration of the candidate's interests, specifying all the circumstances that may give rise to the conflict of interests between the candidate and the Company. Upon emergence of new circumstances that may give rise to the conflict of interests between the member of the Board and the Company, the member of the Board promptly notifies the Company and the Board of such new circumstances in writing.

The Board elects the chairman of the Board out of its members.  
In its activities the Board adheres to laws, other legal acts, the Articles of Association, resolutions of the General Meeting of Shareholders and the rules of procedure of the Board.

#### **Information on authorisations of members of the Board**

The Board is a collegiate managing body of the Company.

The competence of the Board, the decision-making as well as election and recall of members are governed by laws, other legal acts and the Articles of Association.

The Board is accountable to the General Meeting of Shareholders.

#### **Competence of the General Meeting of Shareholders, rights of shareholders and their exercise, where such information is not provided for in laws**

The General Meeting of Shareholders is the supreme body of the Company.

The competence of the General Meeting of Shareholders and the procedure for convening the meeting and adopting decisions are governed by laws, other legal acts and the Articles of Association.

#### **Composition of the management, supervisory bodies and their committees, activities of such bodies and the Company's Manager**

##### *Activities of the Board*

The Board considers and approves the strategy of the Company's activities, its budget, as well as the organisational structure of the Company and employee positions.

The Board takes decisions on granting the Company the status of the founder of or participant in legal entities, as well as on the transfer to other persons or on the encumbrance of any shares (stakes or interests) owned by the Company or of the rights conferred by such shares.

The Board may set forth the business guidelines and rules, annual financial plans, the annual rate of return on assets and the maximum amount of debt liabilities for subsidiaries, as well as other performance indicators for the subsidiaries.

The Board takes decisions on the establishment and winding up of any branches or representative offices of the Company, as well as on the approval and amendment of their regulations. The Board appoints and recalls the heads of the branches and representative offices of the Company.

The Board takes decisions to issue debentures (except for convertible debentures).

The Board takes decisions regarding conclusion of the following transactions (applicable to an individual transaction or a series of related transactions) (unless these transactions are concluded in accordance with the approved financial plan of the Company or the transactions meeting these criteria are stipulated in the Company's operating budget):

- investment, transfer or lease of long-term assets the book value whereof exceeds LTL 10,000,000 (ten million Litas) (estimated for each type of transaction separately);
- pledge or mortgage of the Company's long-term assets the book value whereof exceeds LTL 10,000,000 (ten million Litas) (estimated for the total amount of transactions);
- guaranteeing or warranting the fulfilment of other persons' obligations which exceed LTL 10,000,000 (ten million Litas);

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- acquisition of long-term assets for the price exceeding LTL 10,000,000 (ten million Litass), except for the cases where the Company acquires such assets in order to connect power distribution installations of consumers, manufacturers or any other persons to the Company's electricity networks or because of reconstruction (removal) of the Company's power distribution facilities at the request of the third persons.

The Board shall take decisions on the following:

- transfer, pledge, other encumbrance or disposal of companies and facilities of strategic importance to the national security as well as any other facilities indicated in the Law on Companies of Importance to the National Security and owned by the company which form an electric power transmission grid of the voltage of 110 kV and above as well as appurtenances thereof, or any other actions changing the status of the said company;
- transfer, pledge, other encumbrance or disposal of interconnections with other countries owned by the company;
- transfer, pledge, other encumbrance or disposal of shares of companies directly or indirectly managed by the company, which own interconnections with other countries or which develop, control, use or otherwise dispose of them on any grounds or which implement or carry out the functions and activities of energy transmission system or market operators, or of the rights conferred by such shares, increase, decrease of the authorised capital or any other actions enabling the change of the structure of the authorised capital such companies (e.g. issue of convertible debentures) and decisions regarding reorganisation, spin-off, restructuring, liquidation, transformation of such companies, or any other actions changing the status of the said companies.

The decisions of the Board above require an approval of the General Meeting of Shareholders. An approval of the General Meeting of Shareholders does not release the Company's Board from liability for the decisions adopted.

The Board also resolves the issues (including conclusion of transactions) in respect of which the Board is addressed by the Managing Director.

If pursuant to these Articles of Association or laws the decisions of the Board require the approval of the General Meeting of Shareholders, the Board decisions may be implemented only upon approval of the General Meeting of Shareholders.

#### *Activities of the Managing Director*

The Managing Director is a one-person managing body of the Company. The Managing Director organises the Company's activities, manage the Company, act on behalf of the Company and unilaterally conclude transactions. The competence of the Managing Director and the procedure for election and recall thereof are governed by laws, other legal acts and the Articles of Association.

**Members of the Supervisory Board, members of the Board, the Manager of the Company, the Chief Financier (names and last names, data on the participation in the authorised capital of the issuer, the beginning and the end of the term of office of each person, information on the amounts calculated by the issuer within the reporting period, other assets transferred and the guarantees granted to such persons in terms of total and the average amounts per one member of the Supervisory Board, member of the Board, the Manager of the Company and the Chief Financier);**

Members of the Board of the Company, the Management of the Company, the Chief Financier were the persons listed below:

Position	Name, surname	Beginning date	End date	No of issuer's shares held
Board				
Chairman of the Board	Romas Švedas	28/10/2010		
Member of the Board	Violeta Greičliuvienė	28/10/2010		
Member of the Board	Renatas Šumskis	28/10/2010		
Member of the Board	Vidmantas Grušas	28/10/2010		
Member of the Board	Virgilijus Poderys	08/12/2010		
Managing Director	Vidmantas Grušas	05/11/2010	07/12/2010	
	Virgilijus Poderys	08/12/2010		
Chief Financier	Tatjana Didikienė	17/11/2010		

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Information on the total amounts and average amounts of salary, bonuses and other payments from the profit per person (the administration consists of the Managing Director and the Chief Financier) during the reporting period:

	For the period from the beginning of employment to 31/12/2010 (LTL)
On average per member of the Company Board	0
For all members of the Company Board	0
On average per one member of the Company administration	12,309
For all members of the Company administration	24,618

**Members of committees set up in the Company (names and last names, data on the participation in the authorised capital of the issuer, the beginning and the end of the term of office of each person, working places, authorisations, key functions)**

None

**All material agreements to which the issuer is a party and which would come into effect, be amended or terminated in case of change in the issuer's control, also their impact except the cases where the disclosure of the nature of the agreements would cause significant damage to the issuer.**

There were no material agreements which would come into effect, be amended or terminated in case of change in the issuer's control.

**All agreements of the issuer and members of its management bodies or employees providing for a compensation in case of the resignation or in case they are dismissed without a due reason or their employment is terminated in view of the change of the control of the issuer**

None

**Issuers of equity securities shall additionally present information on major transactions of the related parties, specifying the amounts of the transactions, the nature of the relations between the parties concerned and other information about the transactions indispensable for understanding the financial status of the company where the transactions were material or were concluded under unusual market conditions. Information on individual transactions may be generalised by type, except for the cases where additional information must be disclosed for the purpose of understanding the impact of transactions of the related parties on the financial status of the company. The term "related party" shall have the same meaning as used in the accounting standards used by the issuer**

Presented in the financial statements, note 28.

#### **Information on compliance with the Corporate Governance Code**

Information on compliance with the Corporate Governance Code is provided in the annex to this report.

#### **Information on compliance with provisions of Sections IV–VIII of the Transparency Guidelines**

The Company complies with all provisions of Sections IV–VIII of the Transparency Guidelines, except for the following:

- The Company has not published monthly salary of Company Managers and their deputies. This matter is to be discussed in the meeting of the Company Board;
- The Group does not have a formal dividend payment policy. By Resolution No 20 of 14 January 1997 (as amended by Resolution No 1451 of 3 December 2001) the Government of the Republic of Lithuania, being an indirect holder of 97.5 per cent of the shares of the Company via Visagino atominė elektrinė, has established the principles for calculation of dividends on the state-owned shares. Looking ahead, the dividend calculation policy will depend on the success of the implementation of strategic projects (Litpol Link, NordBalt interconnections; connection of electricity networks with the European network for operation in a synchronic mode).
- The Company has not indicated in the annual report the average salary by divisions. The reorganisation process will be finalised this March: after joining LITGRID AB with LITGRID Turtas AB, all divisions of this Company will be formed. This issue will be discussed after the reorganisation.



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#### Data on the information available to the public

In 2010, the Company announced the notices below on material events (public limited company Lietuvos Energija on behalf of LITGRID Turtas AB published notices via NASDAQ OMX Vilnius AB on material events related to LITGRID Turtas AB that took place from the approval of spin-off terms of public limited liability company Lietuvos Energija, which served as a basis for establishment of LITGRID Turtas AB, on 28 October 2010 in the Extraordinary General Meeting of Shareholders of public limited liability company Lietuvos Energija until the beginning of the trade in shares of LITGRID Turtas AB on 22 December 2010):

31/12/2010	LGD: Regarding amendment of transfer and acceptance act between public limited liability company Lietuvos Energija and LITGRID Turtas AB, dated 1 December 2010
31/12/2010	LGD: Information published by LIETUVOS ENERGIJA regarding material events of LITGRID Turtas AB is valid
31/12/2010	LGD: Extraordinary General Meeting of Shareholders of LITGRID Turtas AB is convened
22/12/2010	LGD: Contracts with suppliers of cable and converter stations for NordBalt electricity interconnection signed
21/12/2010	LEN: ANNOUNCEMENT ABOUT CONDITIONS FOR REORGANISATION OF LITGRID TURTAS AB AND LITGRID AB
17/12/2010	LEN: Resolutions adopted in the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB on 17 December 2010
15/12/2010	LEN: Notice of finalisation of the spin-off of LITGRID Turtas AB and public limited liability company LIETUVOS ENERGIJA
08/12/2010	LEN: On supplementation of the agenda of the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB and approval of the draft resolution
07/12/2010	LEN: On resolutions adopted by boards of LITGRID Turtas AB and LITGRID AB
02/12/2010	LEN: Notice on separation of property, rights and duties of LITGRID Turtas AB from public limited liability company LIETUVOS ENERGIJA
25/11/2010	LEN: Extraordinary General Meeting of Shareholders of LITGRID Turtas AB is convened
25/11/2010	LEN: Notice on arrangement of accounting records of shares of public limited liability company LIETUVOS ENERGIJA and separation of shares of LITGRID Turtas AB from the previously registered issue
10/11/2010	LEN: Regarding consideration of spin-off terms equivalent to prospectus LITGRID Turtas AB
04/11/2010	LEN: On the action plan for prospective spin-off of public limited liability company LIETUVOS ENERGIJA, establishment of LITGRID Turtas AB and its inclusion into the trade list of NASDAQ OMX Vilnius AB
28/10/2010	LEN: Resolutions adopted in Extraordinary General Meetings of Shareholders of 28 October 2010 of public limited liability company LIETUVOS ENERGIJA and LITGRID Turtas AB, which will start its operation after spin-off.
06/10/2010	LEN: On the draft agenda and draft resolutions of Extraordinary General Meetings of Shareholders of public limited liability company LIETUVOS ENERGIJA and LITGRID Turtas AB, which will start its operation after spin-off.

All information on material events that took place in 2010 is available on the website of NASDAQ OMX Vilnius at [www.nasdaqomxbaltic.com/market/?pg=news](http://www.nasdaqomxbaltic.com/market/?pg=news) and on the website of the Company at [www.litgrid.eu](http://www.litgrid.eu).

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**LITGRID Turtas AB notice regarding compliance with the Corporate Governance Code for the Companies Listed on AB NASDAQ OMX Vilnius Stock Exchange**

In accordance with Article 21, paragraph 3 of the Republic of Lithuania Law on Securities and item 20.5 of the Trade Rules of public limited liability company Vilnius Stock Exchange, LITGRID Turtas AB hereunder discloses its compliance with the Corporate Governance Code for the companies whose securities are traded on the regulated market, approved by AB NASDAQ OMX Vilnius Stock Exchange, and the specific provisions. In the event of non-compliance with the Code or certain provisions, it should be indicated which specific provisions are not complied with and for what reasons.

The Company's shares were listed on the stock exchange only from December 2010 and the reorganization procedures of the company will be finished by March, 2011, upon merger of LITGRID AB. After the completion of the reorganization, issues regarding the provisions of the code, which are currently disregarded, will be considered.

PRINCIPLES/RECOMMENDATIONS	YES/ NO	COMMENT
<b>Principle I: Basic Provisions</b> <b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	YES	
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	YES	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	YES	
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	YES	
<b>Principle II: The corporate governance framework</b> <b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	NO	There is no supervisory board in the company as controlling instrument.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	YES	
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	NO	There is no supervisory board in the company as controlling instrument.

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<p>2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.</p>	<p>YES</p>	
<p>2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.</p>	<p>YES</p>	
<p>2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.</p>	<p>YES</p>	
<p>2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>YES</p>	
<p><b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b>  <b>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.</b></p>		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>YES</p>	
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>YES</p>	
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>YES</p>	

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<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	NO	<p>The Company's shares were listed on the stock exchange only from December 2010 and the reorganization procedures of the company will be finished by March, 2011, upon merger of LITGRID AB. After the completion of the reorganization, issues regarding the provisions of the code, which are currently disregarded, will be considered.</p> <p>In the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB held on 04 March 2011 it was decided to establish the Audit Committee.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	NO	<p>Members of the boards are informed about the company activities in the management meetings.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.</p>	NO	<p>Board AB LITGRID turtas is planning to convene an extraordinary shareholders meeting of the company on April 1, 2011 in which will be proposed to recall the two members of the Board and to elect the two new members of the Board.</p>
<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> <li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li> <li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li> <li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance-based pay systems; it does not include compensation</li> </ol>	NO	<p>Board AB LITGRID turtas is planning to convene an extraordinary shareholders meeting of the company on April 1, 2011 in which will be proposed to recall the two members of the Board and to elect the two new members of the Board.</p>

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<p>payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</p> <p>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>	YES	
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	NO	There was no practice in the company to disclose the independence determination of collegial body.
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	NO	There was no practice in the company to disclose the independence determination of collegial body.
<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.</p>	YES	

<b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b> <b>The corporate governance framework should ensure proper and effective functioning of the collegial</b> <b>body elected by the general shareholders' meeting, and the powers granted to the collegial body should</b> <b>ensure effective monitoring of the company's management bodies and protection of interests of all the</b> <b>company's shareholders.</b>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	YES	
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company not – pertaining body (Institution).	YES	
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	YES	
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	YES	
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	YES	
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies.10 Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to	YES	

<p>the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.</p>		
<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	NO	<p>In the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB held on 04 March 2011 it was decided to establish the Audit Committee.</p>
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	NO	<p>In the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB held on 04 March 2011 it was decided to establish the Audit Committee.</p>
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	NO	<p>In the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB held on 04 March 2011 it was decided to establish the Audit Committee of the Company composed of three members.</p>
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee</p>	NO	<p>In the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB held on 04 March 2011 it was decided to establish the Audit Committee.</p>

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<p>should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>		
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	NO	<p>In the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB held on 04 March 2011 it was decided to establish the Audit Committee.</p>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> <li>1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;</li> <li>2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</li> <li>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>4) Properly consider issues related to succession planning;</li> <li>5) Review the policy of the management bodies for selection and appointment of senior management.</li> </ol> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>	NO	<p>There is no Nomination committee formation practice in the collegial bodies.</p>
<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> <li>1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</li> <li>2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;</li> <li>3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company.</li> </ol>	NO	<p>There is no Remuneration committee formation practice in the collegial bodies.</p>



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<p>4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation.</p> <p>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (In particular the remuneration policy applied and individual remuneration of directors);</p> <p>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <p>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <p>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</p> <p>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</p> <p>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</p> <p>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</p> <p>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the</p>	<p>NO</p>	<p>In the Extraordinary General Meeting of Shareholders of LITGRID Turtas AB held on 04 March 2011 it was decided to establish the Audit Committee of the Company.</p>

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<p>auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</p> <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	NO	There is no determination made of the collegial body in the company as well there is no practice to publish such information.
<p><b>Principle V: The working procedure of the company's collegial bodies</b>  <b>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</b></p>		

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<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	<p>YES</p>	
<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.</p>	<p>YES</p>	
<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>YES</p>	
<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>NO</p>	<p>There is only company board in the company.</p>
<p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>  <b>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</b></p>		
<p>6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	<p>YES</p>	
<p>6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.</p>	<p>YES</p>	
<p>6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.<sup>13</sup> All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.</p>	<p>YES</p>	
<p>6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the</p>	<p>YES</p>	

shareholders' meeting should not hinder wide attendance of the shareholders.		
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	NO	Publish only in Lithuanian
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	YES	
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	NO	There is no practice to vote using electronic means.
<b>Principle VII: The avoidance of conflicts of interest and their disclosure</b> <b>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</b>		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	YES	
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	YES	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	YES	

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<p>7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.</p>	<p>YES</p>	
<p><b>Principle VIII: Company's remuneration policy</b>  <b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b></p>		
<p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.</p>	<p>NO</p>	<p>Remunerations of the board and administration bodies are published in the company annual report. There is no practice to publish remuneration policy report.</p>
<p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	<p>NO</p>	<p>There is no practice to publish corresponded information.</p>
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ol style="list-style-type: none"> <li>1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> <li>4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</li> <li>5) Sufficient information on deferment periods with regard to variable components of remuneration;</li> <li>6) Sufficient information on the linkage between the remuneration and performance;</li> <li>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>8) Sufficient information on the policy regarding termination payments;</li> <li>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</li> <li>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</li> <li>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>13) Remuneration statement should not include commercially sensitive information.</li> </ol>	<p>NO</p>	<p>There is no practice to publish corresponded information.</p>
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	<p>NO</p>	<p>There is no practice to publish corresponded information.</p>
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document</p>	<p>NO</p>	<p>There is no practice to publish corresponded</p>

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<p>should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</li> <li>2) The remuneration and advantages received from any Entity belonging to the same group;</li> <li>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</li> <li>4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</li> <li>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</li> <li>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ol> <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</li> <li>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</li> <li>4) All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ol> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</li> </ol> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		<p>information.</p>
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p>	NO	<p>There is no practice to publish corresponded information.</p>
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	NO	<p>There is no practice to publish corresponded information.</p>
<p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should</p>	NO	<p>There is no practice to publish corresponded information.</p>

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be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.		
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	NO	There is no practice to publish corresponded information.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	YES	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	YES	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	NO	There is no practice to publish corresponded information.
8.13. Shares should not vest for at least three years after their award.	YES	Not applicable
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	YES	Not applicable
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	YES	Not applicable
8.16. Remuneration of non-executive or supervisory directors should not include share options.		
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	YES	
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	YES	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	NO	No schemes alike are applied in the company and there is no practice to publish corresponded information.

<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms.</li> </ol> <p>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p>	NO	No schemes alike are applied in the company and there is no practice to publish corresponded information.
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	NO	No schemes alike are applied in the company and there is no practice to publish corresponded information.
<p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	NO	No schemes alike are applied in the company and there is no practice to publish corresponded information.
<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>	NO	No schemes alike are applied in the company and there is no practice to publish corresponded information.
<p><b>Principle IX: The role of stakeholders in corporate governance</b>  <b>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</b></p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	YES	
<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p>	YES	



9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	YES	
<b>Principle X: Information disclosure and transparency</b> <b>The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</b>		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	YES (excl. items 4 and 7)	
10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	YES	
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in Item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	NO	There is no practice to publish corresponded information.
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	NO	There is no practice to publish corresponded information.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on NASDAQ OMX Vilnius, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	YES	
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	YES	

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<p>10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.</p>	<p>YES</p>	
<p><b>Principle XI: The selection of the company's auditor</b>  <b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b></p>		
<p>11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.</p>	<p>YES</p>	
<p>11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.</p>	<p>YES</p>	
<p>11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.</p>	<p>YES</p>	

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STATEMENTS OF FINANCIAL POSITION  
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	Note	Group at 31 <u>December 2010</u>	Company at 31 <u>December 2010</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	4	1,750	515
Property, plant and equipment	5	2,063,451	2,051,554
Prepayments for property, plant, equipment		698	698
Investment property	6	668	1,583
Investments in subsidiaries	7	-	18,038
Investments in associates and joint ventures	7	20,323	19,032
Deferred income tax assets		325	-
Other financial assets	8	1,084	910
<b>Total non-current assets</b>		<b>2,088,299</b>	<b>2,092,330</b>
<b>Current assets</b>			
Inventories	9	3,703	1,750
Prepayments		805	57
Trade receivables	10	139,485	13,424
Other receivables	11	10,437	1,639
Term deposits	12	43,000	-
Cash and cash equivalents	13	75,664	42,161
<b>Total current assets</b>		<b>273,094</b>	<b>59,031</b>
<b>TOTAL ASSETS</b>		<b>2,361,393</b>	<b>2,151,361</b>

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STATEMENTS OF FINANCIAL POSITION  
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	Note	Group at 31 December 2010	Company at 31 December 2010
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves:</b>			
Share capital	14	504,331	504,331
Share Premium	14	29,621	29,621
Revaluation reserve	15	296,353	296,353
Legal reserve	16	47,730	47,665
Retained earnings		1,047,454	982,423
<b>Equity attributable to owners of the parent company</b>		<b>1,925,489</b>	<b>1,860,393</b>
<b>Non-controlling interest</b>		<b>3,359</b>	<b>-</b>
<b>Total equity</b>		<b>1,928,848</b>	<b>1,860,393</b>
<b>Non-current liabilities</b>			
Grants	17	42,349	42,349
Deferred income	18	15,417	15,417
Other non-current accounts payable and liabilities	19	459	234
Deferred income tax liabilities	20	193,627	193,627
<b>Total non-current liabilities</b>		<b>251,852</b>	<b>251,627</b>
<b>Current liabilities</b>			
Trade payables	21	134,330	22,548
Advance amounts received	22	11,298	1,724
Income tax payable		12,693	321
Other accounts payable	23	22,372	14,748
<b>Total current liabilities</b>		<b>180,693</b>	<b>39,341</b>
<b>Total liabilities</b>		<b>432,545</b>	<b>290,968</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,361,393</b>	<b>2,151,361</b>

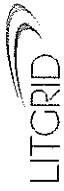
The accompanying notes form an integral part of the financial statements

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STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE PERIOD FROM ESTABLISHMENT TO 31 DECEMBER 2010  
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	Note	Group 2010	Company 2010
<b>Revenue</b>			
Sales revenue	24	90,266	11,154
Other operating income	26	6,969	290
		<u>97,235</u>	<u>11,444</u>
<b>Operating expenses</b>			
Purchase of electricity or related services		(49,837)	-
Purchase of capacity reserve		(13,065)	-
Depreciation and amortisation	4,5,6,1 7	(11,007)	(10,792)
Repair and maintenance expenses		(5,266)	(2,143)
Write-offs of property, plant and equipment		(4,223)	(4,223)
Wages and related expenses		(3,913)	(797)
Transit expenses		(1,881)	-
Other expenses		(4,976)	(3,111)
<b>Total operating expenses</b>		<u>(94,168)</u>	<u>(21,066)</u>
<b>OPERATING PROFIT (LOSS)</b>		<b>3,067</b>	<b>(9,622)</b>
Finance income	27	97	-
Finance (costs):			
Share of results of activities of associates and joint ventures	7	(204)	-
Other finance (costs)		(7)	-
		<u>(114)</u>	<u>-</u>
<b>PROFIT (LOSS) BEFORE INCOME TAX</b>		<b>2,953</b>	<b>(9,622)</b>
Current year income tax expense	20	(2,454)	(322)
Deferred tax income/(expense)	20	1,874	1,741
		<u>(580)</u>	<u>1,419</u>
<b>PROFIT (LOSS) FOR THE PERIOD</b>		<b>2,373</b>	<b>(8,203)</b>
<b>PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Owners of the Company		2,366	(8,203)
Non-controlling interest		7	-
		<u>2,373</u>	<u>(8,203)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Owners of the Company		2,366	(8,203)
Non-controlling interest		7	-
		<u>2,373</u>	<u>(8,203)</u>
<b>Basic and diluted earnings per share (in LTL)</b>	29	<b>0.01</b>	-

The accompanying notes form an integral part of the financial statements



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STATEMENTS OF CHANGES IN EQUITY  
 FOR THE PERIOD ENDED 31 DECEMBER 2010  
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Group	Note	Equity attributable to owners of the Company							Total	Non- controlling interest	Total equity
		Share capital	Share Premium	Revaluation reserve	Legal reserve	Retained earnings	Total				
<b>Balance at the beginning of the period</b>		-	-	-	-	-	-	-	-	-	
Equity items formed during the spin-off	32	504,331	29,621	299,582	47,730	1,041,859	1,923,123	3,352	1,926,475		
Depreciation of revaluation reserve and amounts written off	15	-	-	(3,229)	-	3,229	-	-	-		
Comprehensive income		-	-	-	-	2,366	2,366	7	2,373		
<b>Balance at 31 December 2010</b>		<b>504,331</b>	<b>29,621</b>	<b>296,353</b>	<b>47,730</b>	<b>1,047,454</b>	<b>1,925,489</b>	<b>3,359</b>	<b>1,928,848</b>		
<b>Company</b>	<b>Note</b>	<b>Share capital</b>	<b>Share Premium</b>	<b>Revaluation reserve</b>	<b>Legal reserve</b>	<b>Retained earnings</b>	<b>Total</b>				
<b>Balance at the beginning of the period</b>		-	-	-	-	-	-	-	-		
Equity items formed during the spin-off	32	504,331	29,621	299,582	47,665	987,397	1,868,596				
Depreciation of revaluation reserve and amounts written off	15	-	-	(3,229)	-	3,229	-				
Comprehensive income		-	-	-	-	(8,203)	(8,203)				
<b>Balance at 31 December 2010</b>		<b>504,331</b>	<b>29,621</b>	<b>296,353</b>	<b>47,665</b>	<b>982,423</b>	<b>1,860,393</b>				

The accompanying notes form an integral part of the financial statements

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STATEMENTS OF CASH FLOWS  
FOR THE PERIOD FROM ESTABLISHMENT TO 31 DECEMBER 2010  
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	Note	Group 2010	Company 2010
<b>Cash flows from operating activities</b>			
Profit (loss) for the period		2,373	(8,203)
<b>Reversal of non-monetary expenses (income):</b>			
Depreciation and amortisation expense	4,5,6	11,165	10,950
(Reversal of)/impairment charge on assets		(15)	-
Share of loss of associates and joint ventures	7	204	-
Income tax expense	20	2,454	321
Change in deferred tax liability	20	(1,874)	(1,741)
(Income) from grants	17	(158)	(158)
Loss on write-off of property, plant and equipment (except financial assets)	5	4,390	4,390
Elimination of results of financing and investing activities:			
- Interest (Income)		(97)	-
- Interest expense		7	-
<b>Changes in working capital</b>			
(Increase) decrease in trade receivables and other amounts receivable		(22,903)	(15,063)
(Increase) decrease in inventories and prepayments		1,295	(185)
Increase (decrease) in accounts payable and advance amounts received		(2,378)	9,341
<b>Net cash used in operating activities</b>		<b>(5,537)</b>	<b>(348)</b>
<b>Cash flows from investing activities</b>			
(Purchase) of property, plant and equipment and intangible assets		(458)	(305)
Interest received		97	-
Term deposits		(17,000)	-
<b>Net cash used in investing activities</b>		<b>(17,361)</b>	<b>(305)</b>
<b>Cash flows from financing activities</b>			
Cash and cash equivalents received during the spin-off	32	98,727	42,814
Repayments of borrowings	32	(158)	-
Interest (paid)		(7)	-
<b>Net cash used in financing activities</b>		<b>98,562</b>	<b>42,814</b>
<b>Net increase (decrease) in cash flows</b>		<b>75,664</b>	<b>42,161</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of the year</b>		<b>75,664</b>	<b>42,161</b>

The accompanying notes form an integral part of the financial statements

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**1. General information**

LITGRID Turtas AB is a public company registered in the Republic of Lithuania. The address of its registered office is A. Juozapavičiaus St. 13, LT-09311, Vilnius, Lithuania. LITGRID Turtas AB (hereinafter referred to as the "Company") is a limited liability profit-seeking entity registered with the Register of Legal Entities managed by the public institution Registrų Centras on 16 November 2010. The Company's code is 302564383, VAT payer's code is LT100005748413.

After the Extraordinary General Meeting of Shareholders of Lietuvos Energija AB held on 28 October 2010 approved the unbundling of Lietuvos Energija AB, the amended Articles of Association of Lietuvos Energija AB which continues its activities after the spin-off were registered with the Register of Legal Entities on 16 November 2010 along with those of the new company LITGRID Turtas AB, established on the basis of the separated part of Lietuvos Energija AB. The newly established company is engaged in activities that were assigned to it after the spin-off.

The principal activities of the Company include management, use and disposal of electricity transmission system assets and its appurtenances, management of companies engaged in transmission trading and market operator's activities including management of companies owning electricity interconnections with other countries or those that develop, manage, use or dispose them.

The unbundling of Lietuvos Energija AB was carried out in the manner prescribed in paragraph 1 of Article 71 of the Lithuanian Law on Companies, i.e. when a part of the company, which continues its activities, is separated and on the basis of assets, rights and obligations assigned to this separated part one or several new companies of the same legal form are established. The unbundling was performed by separating part of Lietuvos Energija AB as an aggregate of assets, rights and obligations representing an autonomous economic unit in terms of organisation, engaged in activities and able to perform its functions at its own discretion which is the basis for the establishment of a new company LITGRID Turtas AB.

The aim of unbundling (spin-off) was to ensure the compliance of the activity model of the Lithuanian electricity sector with the national energy strategy, the requirements of the third legislative package for the European Union energy meant for liberalisation of electricity and gas markets, to create conditions for connection of the Lithuanian electricity system with the electricity networks of the continental Europe and to ensure the financing of strategic energy projects. It was also aimed at creation of conditions for legal independence of the electricity transmission activity and its effective separation from other activities of the electricity sector, thus implementing one of the selected alternatives of separation of the electricity sector established by the third legislative package for the EU energy, i.e. ownership unbundling, ensuring effective separation of electricity transmission activity not only from electricity generation and supply, but also from distribution activities and their commercial interests, i.e. rearrange the vertically integrated energy companies operating in the electricity sector.

Under the terms and conditions of the reorganisation of Lietuvos Energija AB approved by the decision of the Extraordinary General Meeting of Shareholders dated 28 October 2010, a transfer-acceptance act was signed on 1 December 2010, on the basis of which the Company took over a part of assets, rights and obligations of Lietuvos Energija AB assigned to the separated part as defined in the spin-off conditions of the Company.

On 15 December 2010 Lietuvos Energija AB and LITGRID Turtas AB concluded an act supplementing the transfer-acceptance act signed on 1 December 2010 and approved the final spin-off balance sheets of Lietuvos Energija AB and the Company as at 24:00 o'clock of 30 November 2010. Moreover, under this act the Company took over the remaining part of assets, rights and obligations of Lietuvos Energija AB assigned to the separated part and completed the spin-off process of Lietuvos Energija AB. The final spin-off balance sheets of the Company and Lietuvos Energija AB and items of assets, equity and liabilities formed during the spin-off are disclosed in Note 32.

With effect from 1 January 2010, the function of the transmission system operator has been carried out by the Company's subsidiary LITGRID AB. Under the requirements of the EU legislative acts on the liberalisation of electric power market, subsidiaries of Lietuvos Energija AB established for the purpose of separating specific activities were issued activity licenses on 28 December 2009. The company LITGRID AB was granted a license of the electricity transmission system operator and the company BALTPPOOL UAB was granted a license of the electricity market operator.

As at 31 December 2010, the authorised share capital of the Company amounted to LTL 504,331,380 and was divided into 504,331,380 ordinary registered shares with par value of LTL 1 per share. All shares are fully paid.

	Ownership interest (LTL)	Number of shares held (%)
Visagino Atominė Elektrinė UAB	491,736,153	97.5 %
Other shareholders	12,595,231	2.5 %
<b>Total</b>	<b>504,331,380</b>	<b>100 %</b>

The ultimate controlling party of Visagino Atominė Elektrinė UAB is the Ministry of Energy of the Republic of Lithuania.



LITGRID Turtas AB  
Company code: 302564383 A. Juozapavičiaus g. 13, LT-09311 Vilnius

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These financial statements include the consolidated financial statements of the Group and the separate financial statements of the Company.

As of the date of these financial statements the Group consisted of LITGRID Turtas AB and the following directly and indirectly controlled subsidiaries:

Company	Address of the company's registered office	Shareholding of the Group at 31 December 2010	Share capital at 31 December 2010	*Profit (loss) for 2010	Equity at 31 December 2010	Principal activities
LITGRID AB	A. Juozapavičiaus g. 13, Vilnius	100 %	9,748	10,833	79,136	Activities related to the electricity transmission system operator
BaltPool UAB (controlled through LITGRID AB)	A. Juozapavičiaus g. 13, Vilnius	100 %	318	(99)	444	Activities related to the electricity market operator
TETAS UAB	Senamiesčio g. 102B, Panevėžys	61 %	5,651	187	12,914	Transformer substation, distribution station design, construction, repair and maintenance services
Energetikos Pajėgos UAB (controlled through TETAS UAB)	T.Masiulio g. 16D, Kaunas	61 %	430	(170)	733	Designing of power facilities

\*Profit (loss) of subsidiaries are presented for December 2010, i.e. as of the date when the effective control was transferred to the Company

The Group's investments in the associates and the joint venture as at 31 December 2010 is as follows:

Company	Address of the company's registered office	Shareholding of the Group at 31 December 2010	Share capital at 31 December 2010	Principal activities
Technologijų ir Inovacijų Centras UAB	Žvejų g. 14, Vilnius	35 %	44,350	IT services
Elektros Tinklo Paslaugos UAB	Motorų g. 2, Vilnius	29 %	16,388	Power network and related equipment repair, maintenance and construction services
LitPol Link Sp.z.o.o	Wojciecha Gorskiego 900-033 Warsaw, Poland	50 %	1,743	Designing of electricity transmission interconnection facilities

As at 31 December 2010, the Group had 618 employees, whereas the Company had 113 employees. On 30 November 2010, all employees of Lietuvos Energija AB assigned to the separated part were transferred to the Company/Group.

The shareholders of the Company have the right to approve or not to approve these financial statements or to require the Company preparation of a new set of financial statements.

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## 2. Basis of preparation

These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and applicable to the financial statements.

These financial statements were prepared on a historical cost basis, except for property, plant and equipment which is recorded at revalued amount, less accumulated depreciation and estimated impairment loss and available for sale financial assets, which is recorded at fair value.

The financial year of the Company and other Group companies coincides with the calendar year. The Company's (Group) financial statements cover the period from establishment to 31 December 2010.

## 3. Accounting policies

Accounting policies applied in preparing the financial statements are consistent with those that were applied in preparing the financial statements of Lietuvos Energija AB of the previous financial years except as follows:

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

**IFRIC 18, 'Transfers of Assets from Customers'** (effective prospectively to transfers of assets from customers received on or after 1 July 2009; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009. The Company and the Group adopted this new interpretation in the preparation of the annual financial statements (see paragraph 3.22 of the accounting policies).

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

**IFRS 3, Business Combinations** (revised in January 2008), effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Company and the Group are currently assessing the impact of the amended standard on the financial statements. The amendment did not have any significant effect on the Group's financial statements.

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**3. Accounting policies (*continued*)**

**3.2 New and/or amended standards and interpretations adopted for the current accounting period, but not relevant for the Group and the Company**

**Eligible Hedged Items—Amendment to IAS 39**, effective with retrospective application for annual periods beginning on or after 1 July 2009.

**Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2**, effective for annual periods beginning on or after 1 January 2010.

**Improvements to IFRSs (April 2009)**. In April 2009, IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the changes are effective for financial years beginning on or after 1 January 2010, unless stated otherwise.

**IFRIC 12, Service Concession Arrangements**, effective for annual periods beginning on or after 30 March 2009.

**IFRIC 15, Agreements for the Construction of Real Estate**, effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009.

**IFRIC 16, Hedges of a Net Investment in a Foreign Operation**, effective for annual periods beginning on or after 1 July 2008;

**IFRIC 17, Distributions of Non-Cash Assets to Owners**, effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 July 2009.

**IFRS 1, First-time Adoption of International Financial Reporting Standard. Revised standard in December 2008**, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009; early adoption is allowed.

**Embedded Derivatives - Amendments to IFRIC 9 and IAS 39**, effective for annual periods ending on or after 31 December 2009.

**Additional Exemptions for First-time Adopters - Amendments to IFRS 1**, effective for annual periods beginning on or after 1 January 2010.

**IFRS 1, First-time Adoption of International Financial Reporting Standards**. Revised in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009; early adoption is allowed.

**Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations** (and consequential amendments to IFRS 1), effective for annual periods beginning on or after 1 July 2009.

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**3. Accounting policies (*continued*)**

**3.3 New and/or amended standards and interpretations issued, effective from 1 January 2011 or later, and not early adopted by the Group and the Company**

**Amendment to IAS 24, Related Party Disclosures** (Issued in November 2009, effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group and Company are currently assessing the impact of the amended standard on disclosures in the financial statements

**IFRS 9, Financial Instruments Part 1: Classification and Measurement**, issued in November 2009. Amended standard, effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Group and the Company are considering the implications of the standard and the timing of its adoption.

**Classification of Rights Issues - Amendment to IAS 32**, effective for annual periods beginning on or after 1 February 2010. This amendment does not have any impact on the Group's and Company's financial statements.

**Prepayments of a Minimum Funding Requirement - Amendment to IFRIC 14**, effective for annual periods beginning on or after 1 January 2011; The amendment does not have any effect on the Group's and the Company's financial statements.

**IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments** (effective for annual periods beginning on or after 1 July 2010). The amendment does not have any effect on the Group's and the Company's financial statements.

**Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS** (effective for annual periods beginning on or after 1 July 2010). The amendment does not have any effect on the Group's and the Company's financial statements.

**Improvements to International Financial Reporting Standards, issued in May 2010**; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU.

**Disclosures—Transfers of Financial Assets - Amendments to IFRS 7** (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

**Deferred Tax: Recovery of Underlying Assets - Amendment to IAS 12** (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).

**Severe hyperinflation and removal of fixed dates for first-time adopters - Amendment to IFRS 1** (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

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### **3. Accounting policies (continued)**

#### **3.4 Consolidation principles**

The consolidated financial statements of the Group include LITGRID turtas AB and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period, using uniform accounting policies.

Subsidiaries are consolidated from the date from which effective control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies are eliminated. For the purpose of preparation of the group's consolidated financial statements total comprehensive income of subsidiaries was attributed to owners of the parent company from 1 December, i.e. from the date when effective control was transferred to the Company.

#### **3.5 Business combinations**

Acquisition of subsidiaries, except for acquisitions between jointly controlled companies, is accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the consideration given, which includes assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree of net assets.

IFRS 3, 'Business combinations' is not applied to acquisitions of subsidiaries between jointly controlled entities, therefore such acquisitions were recognised using predecessor accounting. The Group did not restate assets and liabilities to their fair value as at the acquisition date; instead the Group combined assets and liabilities at their carrying amounts. No goodwill arises in predecessor accounting and the consolidated financial statements incorporate the combined companies' results from the date of acquisition.

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For the purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### **3.6 Investments in subsidiaries (the Company)**

Subsidiary is an entity directly or indirectly controlled by a parent company accompanying a shareholding of more than half of the voting rights. In the parent company's statement of financial position investments in subsidiaries are stated at cost less impairment, where the investment's carrying amount in the parent's statement of financial position exceeds its estimated recoverable amount. Cost also includes direct attributable costs of investment.

#### **3.7 Investments in associates and joint ventures**

An associate is an entity over which the Group/Company has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is an ability to take part in making financial and operating policy decisions but is not control or joint control over those policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity.

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

In the consolidated financial statements of the Group results of activities of associates and joint ventures are accounted at equity method, except when the investment is classified as held-for-sale, when it is recognised according to IFRS 5 *Non-current assets held for sale and discontinued operations*. Under the equity method, investments in associates or joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the investee, less any impairment in the value of individual investments. The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements other comprehensive income is recognised in other comprehensive income.

Losses of an associate or joint venture in excess of the Group's interest in that associate/joint venture are not recognised, unless the Group has assured legal or constructive obligations or made payments on behalf of the associate/joint venture.

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### 3. Accounting policies (*continued*)

#### 3.7. Investments in associates and joint ventures (*continued*)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate/joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the statement of comprehensive income.

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

#### 3.8 Property, plant and equipment and intangible assets

##### Property, plant, and equipment

Assets with the useful life over one year is classified as property, plant and equipment.

Property, plant and equipment is shown at revalued amounts, based on periodic (at least every 5 years) valuations performed by independent valuers, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets. Increases in the carrying amount arising on the first revaluation of property, plant and equipment are credited to revaluation reserve directly in equity and decreases are recognised in the profit and loss account. Increases in the carrying amount arising on the subsequent revaluation of property, plant and equipment are credited to revaluation reserve, whereas decreases in the carrying amount that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Revaluation increases in property plant and equipment value that offset previous decreases are taken to the profit and loss account. All other increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax.

Construction in progress represents non-current fixed assets under construction. The cost of such assets includes design, construction works, plant and equipment being installed, and other directly attributable costs.

##### Intangible assets

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

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

##### Depreciation and amortisation

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

<b>Property, plant and equipment and intangible assets</b>	<b>Useful lives (in years)</b>
Buildings	20 - 75
Structures, machinery and equipment:	
- electricity and communication devices	20 - 25
- electricity equipment	15 - 35
- other equipment	5 - 20
Motor vehicles	4 - 10
Other property, plant and equipment:	
- computer hardware and communication equipment	3 - 10
- inventory, tools	4 - 10
Intangible assets	3 - 4

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**3. Accounting policies (continued)**

**3. Property, plant and equipment and intangible assets (continued)**

Average useful lives of newly acquired property, plant and equipment, which are highly important for the main activity of the Group/Company, are as follows:

	<b>Average useful lives (in years)</b>
Constructions of transformer substations	30
330, 110, 35 kV electricity transmission lines	40 - 55
330, 110, 35, 6-10 kV electricity distribution equipment	30 - 35
330, 110, 35, 6-10 kV capacity transformers	35
Relay security and automation equipment	15 - 35
Technological and dispatch control equipment	8

Property, plant and equipment acquired under finance lease are depreciated over their estimated useful life on the same basis as owned assets.

Profit or loss resulting from sale of non-current assets is calculated as the difference between the proceeds from sale and the carrying value of the disposed asset and is recognised in the statement of comprehensive income.

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

**3.9 Impairment of property, plant and equipment and intangible assets**

At each reporting date, the Group and the Company review the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets of the Group and the Company are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at each reporting date, and whenever there is an indication that the asset may be impaired.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (without exceeding the sum of previous value impairment) as described in Note 3.8.

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### **3. Accounting policies (*continued*)**

#### **3.10 Investment property**

Investment property of the Group/Company, which consists of investments in buildings held to earn rental revenue or expecting increase in their value, initially is recognised at acquisition cost, including transaction costs. Subsequently all investment property is carried at cost, less accumulated depreciation and impairment. Investment property is depreciated using the same depreciation calculation methods and periods as those applied to property, plant and equipment.

Transfers to and from investment property are made only when there is an evidence of change in an asset's use. Some properties may be partially occupied by the Company/Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Company/Group can be sold separately, the Company/Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40.

#### **3.11 Non-current assets held for sale**

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

#### **3.12 Financial assets**

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

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

The Company's/Group's financial assets include cash and short-term deposits, trade and other receivables and investments in securities, and are classified into 2 categories: available-for-sale financial assets and loans and receivables.

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

##### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale. After initial recognition available-for-sale financial assets are measured at fair value together with the result of revaluation recognised in revaluation reserve of financial assets, reported under equity. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of comprehensive income as gain (loss) from sale of available-for-sale securities. Dividends received while holding available-for-sale financial assets is reported as other income in the statement of comprehensive income.

Fair value of available-for-sale financial assets traded in financial markets, is based on available market prices or quotes of brokers for the date closest the date of financial statements. 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, and discounted cash flow analysis.

##### Loans and receivables

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

##### Effective interest rate method

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



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### **3. Accounting policies (*continued*)**

#### **3.12. Financial assets (*continued*)**

##### Impairment of financial assets

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date that would have been determined had no impairment loss been recognised for the asset in prior years.

##### Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

#### **3.13 Inventories**

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

#### **3.14 Cash and cash equivalents**

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

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

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### 3. Accounting policies (*continued*)

#### 3.15 Financial liabilities and equity instruments issued by the Group and the Company

##### Recognition of instruments as debt or equity instruments

Debt or equity instruments are classified as financial liabilities or equity based on the substance of the contractual arrangement.

##### Equity instruments

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

##### Financial liabilities

Liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities. The Group/Company does not have any financial liabilities at fair value through profit or loss.

##### Other financial liabilities

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

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Interest expenses are recognised using the effective interest rate method (see Note 3.12).

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

##### Derecognition of financial liabilities

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

#### 3.16 Foreign currency

Foreign currency transactions are accounted for using the exchange rates prevailing at the dates of transactions as established by the Bank of Lithuania, which approximate market exchange rates. Monetary assets and liabilities are translated into the litas using the exchange rate prevailing at the balance sheet date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the statement of comprehensive income of the reporting period.

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

At 31 December 2010

1 LVL	=	4.8643 LTL
100 RUB	=	8.5535 LTL
10 SEK	=	3.8407 LTL
1 USD	=	2.6099 LTL
10 EEK	=	2.2067 LTL

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

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

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**3. Accounting policies (*continued*)**

**3. Foreign currency (*continued*)**

The assets and liabilities (including comparative figures) of foreign subsidiaries are translated into the litas for the preparation of consolidated financial statements using the exchange rate prevailing at the balance sheet date. Income and expenses (including comparative figures) are translated into the litas using the average exchange rate of the period, unless there were significant fluctuations of the exchange rate during the reporting period in which case an exchange rate prevailing at the date of the transaction is applied. Currency exchange rate differences, if any, are recognised under foreign currency translation reserve in equity. These changes in foreign exchange rates are recognised in the statement of comprehensive income in the period in which the foreign subsidiary is disposed.

**3.17 Grants**

Asset-related grants

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

Income-related grants

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

**3.18 Provisions**

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

Provisions for pension payments

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

**3.19 Employee benefits**

(a) Social security contributions

The Company and the Group pay 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 is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

(b) Termination benefits

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

(c) Bonus plans

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

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**3. Accounting policies (*continued*)**

**3.20 Accounting for lease**

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

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

The Group and the Company as a lessor

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

The Group and the Company as a lessee

Operating lease payments are recognised as expenses in the statement of comprehensive income on a straight-line basis over the lease term.

**3.21 Segment information**

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

**3.22 Income and expense recognition**

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

Revenue from sale of electricity

Revenue from sale of electricity acquired at an auction and public service obligations (PSO) electricity sales is recognised when substantially all risks and rewards related to the object of sale have been transferred to the buyer. The Group does not recognise income and expenses from transmission trading at an auction with respect to those transaction in which it acts as an agent.

Revenue from electricity-related services

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

*Tariff regulation*

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

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

In providing PSO services the Group earns income and incurs expenses. PSO service fees are the fees paid to the suppliers of electricity under public service obligations scheme (based on annual quantities and prices of services established in advance). Subsequently, these services are provided to the distribution system operators and electricity consumers using a tariff established by the Commission. If at the end of the calendar year fees collected by the Company from electricity consumers and the distribution system operators for PSO services exceed or were less than the actual payments for PSO to suppliers of these services, the difference needs to be taken into account by the transmission system operator when setting the tariff for PSO services for the next year.

The Group purchases a capacity reserve service from electricity suppliers in accordance with capacity reserve agreements and subsequently render this service to the distribution system operators and electricity consumers using a tariff established by the Commission.

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### **3. Accounting policies (*continued*)**

#### **3.22. Income and expense recognition (*continued*)**

##### Connection of new users

Until 2009 payments received by Lietuvos energija AB for the connection of the new users initially are recognised as deferred income and subsequently recognised as income over the same period during which the related costs of installation are charged. The related costs of installation, which include acquisition cost of non-current tangible assets and other costs, are capitalised and depreciated over the estimated useful lives of the capitalised assets.

Starting from 2010 (applicable to transactions from 1 July 2009) till the spin-off Lietuvos energija AB and later - the Company recognises such income immediately after the connection of the new user provided that the electricity price to be paid by the new user in future for services rendered/purchased by the Company/Group does not differ from the price paid by other users who have not made payments for connection.

##### Repair service revenue

Revenue from customer specific agreements/projects, i.e. repair services (Note 26), is recognised based on the proportion of the work completed, which is estimated by comparing actually incurred costs on the project with the project's total estimated cost. Expected change in the profitability is accounted for in the statement of comprehensive income when such change is determined. Projects are reviewed periodically and if determined that a contract will be loss-making, respective provisions are accounted for.

##### Other income

Interest income is recognised by the accruals method considering the outstanding amount and the applicable interest rate. Received interest is recorded in the statement of cash flows as cash flows from investing activities.

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

Income and expenses related to the sale and lease of the non-current assets are accounted for as other operating income and expenses by the Group and the Company.

##### Recognition of expenses

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

#### **3.23 Financing expenses**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets until those assets are completely ready for use or sale. Interest income that relate to temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

Other borrowing costs are recognised as expenses in the income statement as incurred.

#### **3.24 Income tax**

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

##### Income tax

The current year income tax charge is based on taxable pre-tax profit for the year as modified by the items of income or expenses that are not subject to tax or deductible. Tax rates used to compute income tax expense are those applicable as of the date of the financial statements. In 2010, income tax at a rate of 15 per cent was applicable in Lithuania.

##### Deferred income tax

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

### **3. Accounting policies (*continued*)**

#### **3.24. Income tax (*continued*)**

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

Deferred tax assets and liabilities are offset when they are related to profit taxes levied by the same tax authority and when there is a legally enforceable right to set off current tax assets against current tax liabilities.

#### Income tax and deferred tax for the accounting period

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

#### **3.25 Earnings per share**

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

As at 31 December 2010 and during the period ended 31 December 2010, the weighted average number of shares, based on which the earnings per share are calculated was 504,331,380. The Company had no dilutive options outstanding, therefore, basic and diluted earnings per share do not differ.

#### **3.26 Contingencies**

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

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

#### **3.27 Post-balance-sheet events**

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

#### **3.28 Related parties**

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

#### **3.29 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.

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**3. Accounting policies (*continued*)**

**3.30 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. The areas where estimates are significant to these financial statements include fair value evaluation and depreciation of property, plant and equipment and investment property (Notes 3.8, 5 and 6), evaluation of impairment for accounts receivable and investments (Notes 3.12, 7, 10 and 11), percentage of completion evaluation for repair service contracts (Notes 3.22 and 26). Future events may cause the assumptions used in arriving at the estimates to change. The effect of such changes in the estimates will be recorded in the financial statements when determined.

Tax audits

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's and Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Depreciation rates of property, plant and equipment

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

Revaluation of property, plant and equipment

During the spin-off process the Company took over property, plant and equipment from Lietuvos Energija AB. The fair value of property, plant and equipment and investment property of Lietuvos Energija AB as at 31 December 2008 was determined by independent valuers who used a method of comparative prices or depreciated replacement value or discounted cash flows methods to determine the fair value of the assets, depending on the type of asset.

As at 31 December 2009, management of Lietuvos Energija AB revised carrying amounts of property, plant and equipment in accordance with the revaluation method. Having assessed the drop in the construction cost indices in 11 months of 2009 in respect of relevant categories of assets which is published by the Lithuanian Statistics Department, Lietuvos Energija AB reduced the carrying amount of property, plant and equipment. Lietuvos Energija AB applied a 12.27 per cent statistical index in respect of the category of buildings and a 9.68 per cent index in respect of other categories of property, plant and equipment that at 31 December 2008 were revalued based on depreciated replacement cost. In addition, property, plant and equipment of Lietuvos Energija AB mainly real estate (administrative buildings and warehouses) that as at 31 December 2008 was revalued using comparative prices method, was revalued at 31 December 2009 based on the report on fair value changes of industrial real estate in Lithuania by region in 2009 provided by an independent valuer Ober-Haus Nekilnojamosis Turtas UAB. This report was derived from market evidence on changes of real estate prices.

On 31 December 2010, the Group and the Company assessed the change in the construction cost indices in respect of relevant categories of assets and changes in prices of industrial real estate during the period from 1 December 2009 to 31 December 2010 published by the Lithuanian Statistics Department. As changes in the index/prices were insignificant, management decided not to reduce carrying amounts of property, plant and equipment.

Impairment of property, plant and equipment

The Group and the Company make an assessment, at least annually, whether there are any indicators that the book value of property, plant and equipment has been impaired. If that is the case, the Group and the Company make an impairment test in accordance with the accounting policy set out in Note 3.9.

The Group and the Company account for property, plant and equipment at fair value in accordance with International Accounting Standard No.16 'Property, plant and equipment'. Fair value of mostly all items of property, plant and equipment of the Group and the Company due to their specific nature is measured using a depreciated replacement cost approach at 31 December 2008.

If the value of assets is measured using a depreciated replacement cost method, International Valuation Standards require that an adequate profitability test is performed. Accounting standards require a periodical review of property, plant and equipment for impairment. The value of property, plant and equipment should be reduced if its carrying value in the statement of financial position is higher than either its value in use or fair value less cost to sell. In other words, this means that the carrying amount of property, plant and equipment shown in the statement of financial position should be written down to the higher of either the current value of the future benefits that would be derived by the Group and Company from the continued use of the assets or the proceeds it would derive from the asset's immediate retirement and disposal.

The previous version of the Lithuanian Law on Electricity valid at 31 December 2008 stipulated that the price caps of electricity transmission, distribution and public supply services were determined based on the value of assets used in licensed activities of the service provider with values being established on the grounds of data reported in the service provider's financial statements (Regulated Assets Base).

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**3. Accounting policies (*continued*)**

**3.30. Critical accounting estimates and judgments (*continued*)**

According to the amendment effective from 1 June 2009 the Law now requires the price caps of electricity transmission, distribution and public supply services to be determined based on the value of assets used in licensed activities of the service provider with values being estimated and approved by the National Control Commission for Prices and Energy in accordance with the principles of determination of the value of assets used in licensed activities of the service provider that have been drafted by the Commission and approved by the Government.

According to the Resolution on the Methodology of Determination of the Value of Assets used in Licensed Activities of the Electricity Service Provider, the determination of the price caps of electricity transmission, distribution and public supply services is to include the value of assets used in licensed activities of the service provider which is equal to net book value (carrying amount) of property, plant and equipment as at 31 December 2002 as increased by the amount of investments implemented and agreed with the Commission and reduced by the depreciation amount calculated pursuant to the procedure stipulated by the Lithuanian Law on Income Tax, etc.

Management believes that the aforementioned amendments to regulatory legislation may have a significant negative impact on fair value of property, plant and equipment. Due to the reasons specified, values of property, plant and equipment reported in these financial statements may materially differ from those that would be determined if the valuation of assets were performed by independent valuers as required by International Valuation and Accounting Standards. It is probable that such valuation would have a negative effect on the results of the Company' and Group's activities and the shareholders' equity reported in the financial statements for the year 2010.

Valuation of fair values of property, plant and equipment as at 31 December 2010 was not performed by independent valuers, as the mentioned amendments to regulatory legislation came in force only on 1 January 2010 and the impact of these amendments on the Group's and the Company's ability to earn income in future periods cannot be reliably estimated.

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

Since the shares of the subsidiaries and associated entities are not listed, the Group/Company estimated the recoverable value of these investments based on the carrying value of the Group's/Company's share of the subsidiary's/associate's net assets, which approximates its fair value as at 31 December 2010 based on the judgement of management.

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

As at the date of these financial statements, there was no significant risk that the book amount of assets and liabilities will be subject to important corrections in the next accounting year due to changes in management's assumptions and estimates, except for the adjustments which might be needed due to uncertainties in respect of the determination of the value of property, plant and equipment used in licensed activities as at 31 December 2010, as described above.



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**4. Intangible assets**

The Group's intangible assets comprised:

<b>Group</b>	<b>Patents and licenses</b>	<b>Computer software</b>	<b>Other intangible assets</b>	<b>Total</b>
Opening net book amount	-	-	-	-
Assets received during spin-off (note 32)	-	1,610	28	1,638
Additions	-	159	-	159
Amortisation charge	-	(47)	-	(47)
<b>Net book amount at 31 December 2010</b>	<b>-</b>	<b>1,722</b>	<b>28</b>	<b>1,750</b>
<b>At 31 December 2010</b>				
Cost	1	4,555	34	4,590
Accumulated amortisation	(1)	(2,833)	(6)	(2,840)
<b>Net book amount at 31 December 2010</b>	<b>-</b>	<b>1,722</b>	<b>28</b>	<b>1,750</b>

The Company's intangible assets comprised:

<b>Company</b>	<b>Patents and licenses</b>	<b>Computer software</b>	<b>Other intangible assets</b>	<b>Total</b>
Opening net book amount	-	-	-	-
Assets received during spin-off (note 32)	-	400	11	411
Additions	-	104	-	104
<b>Net book amount at 31 December 2010</b>	<b>-</b>	<b>504</b>	<b>11</b>	<b>515</b>
<b>At 31 December 2010</b>				
Cost	1	2,774	13	2,788
Accumulated amortisation	(1)	(2,270)	(2)	2,273
<b>Net book amount at 31 December 2010</b>	<b>-</b>	<b>504</b>	<b>11</b>	<b>515</b>

Acquisition cost of the Group's and the Company's intangible assets, which were fully amortised but still in use as at 31 December 2010, is as follows:

<b>Category of intangible assets</b>	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Patents and licenses	1	1
Computer software	1,900	1,850
<b>Total</b>	<b>1,901</b>	<b>1,851</b>

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**5. Property, plant and equipment**

The Group's property, plant and equipment comprised:

<b>Group</b>	<b>Land</b>	<b>Buildings</b>	<b>Structures and machinery</b>	<b>Motor vehicles</b>	<b>Other PP&amp;E</b>	<b>Construct-ion in progress</b>	<b>Total</b>
Opening net book amount	-	-	-	-	-	-	-
Assets received during spin-off (note 32)	1,961	35,096	1,934,150	1,798	43,986	47,159	2,064,150
Additions	-	-	-	70	60	15,332	15,462
Other movements	-	15	-	-	-	-	15
Write-offs	-	-	(4,390)	-	-	-	(4,390)
Reclassification to investment property (note 6)	-	(670)	-	-	-	-	(670)
Reclassification between groups	-	1,566	24,412	-	2,228	(28,206)	-
Depreciation charge	-	(187)	(10,179)	(39)	(711)	-	(11,116)
<b>Net book amount At 31 December 2010</b>	<b>1,961</b>	<b>35,820</b>	<b>1,943,993</b>	<b>1,829</b>	<b>45,563</b>	<b>34,285</b>	<b>2,063,451</b>
Cost or revaluated amount	1,961	38,120	2,061,505	2,375	86,811	34,285	2,225,057
Accumulated depreciation	-	(2,155)	(116,287)	(546)	(41,248)	-	(160,236)
Accumulated impairment	-	(145)	(1,225)	-	-	-	(1,370)
<b>Net book amount</b>	<b>1,961</b>	<b>35,820</b>	<b>1,943,993</b>	<b>1,829</b>	<b>45,563</b>	<b>34,285</b>	<b>2,063,451</b>

The Company's property, plant and equipment comprised:

<b>Company</b>	<b>Land</b>	<b>Buildings</b>	<b>Structures and machinery</b>	<b>Motor vehicles</b>	<b>Other PP&amp;E</b>	<b>Construct-ion in progress</b>	<b>Total</b>
Opening net book amount	-	-	-	-	-	-	-
Assets received during spin-off (note 32)	1,961	33,336	1,933,911	-	35,449	47,538	2,052,195
Additions	-	-	-	-	11	15,354	15,365
Write-offs	-	-	(4,390)	-	-	-	(4,390)
Reclassification to investment property (note 6)	-	(670)	-	-	-	-	(670)
Reclassification between groups	-	1,566	24,412	-	2,228	(28,206)	-
Depreciation charge	-	(179)	(10,175)	-	(592)	-	(10,946)
<b>Net book amount At 31 December 2010</b>	<b>1,961</b>	<b>34,053</b>	<b>1,943,758</b>	<b>-</b>	<b>37,096</b>	<b>34,686</b>	<b>2,051,554</b>
Cost or revaluated amount	1,961	35,955	2,061,131	-	76,546	34,686	2,210,279
Accumulated depreciation	-	(1,757)	(116,148)	-	(39,450)	-	(157,355)
Accumulated impairment	-	(145)	(1,225)	-	-	-	(1,370)
<b>Net book amount</b>	<b>1,961</b>	<b>34,053</b>	<b>1,943,758</b>	<b>-</b>	<b>37,096</b>	<b>34,686</b>	<b>2,051,554</b>

All Company's property, plant and equipment is leased to LITGRID AB (note 31).

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

As at 31 December 2010 the Group/Company has significant contractual obligations to purchase property, plant and equipment, which have to be fulfilled in later periods.

	<b>Purchase commitments as at 31 December 2010</b>
Interconnection between the electricity transmissions systems of Lithuania and Sweden (NORDBALT)	707,041
Switchyards	82,553
interconnection between the electricity transmissions systems of Lithuania and Poland (LitPolLink)	2,457
Other	10,336
<b>Total</b>	<b>802,387</b>

If property, plant and equipment were carried using a deemed cost method as at 31 December 2010, carrying values of property, plant and equipment of the Company and the Group would be as follow:

<b>Group</b>	<u>Land</u>	<u>Buildings</u>	<u>Structures and machinery</u>	<u>Motor vehicles</u>	<u>Other PP&amp;E</u>	<u>Construct -ion in progress</u>	<u>Total</u>
<b>Net book amount</b>							
<b>At 31 December 2010</b>	<u>1,794</u>	<u>32,085</u>	<u>1,676,568</u>	<u>1,829</u>	<u>43,450</u>	<u>35,108</u>	<u>1,790,834</u>

<b>Company</b>	<u>Land</u>	<u>Buildings</u>	<u>Structures and machinery</u>	<u>Motor vehicles</u>	<u>Other PP&amp;E</u>	<u>Construct -ion in progress</u>	<u>Total</u>
<b>Net book amount</b>							
<b>At 31 December 2010</b>	<u>1,794</u>	<u>31,233</u>	<u>1,676,333</u>	<u>-</u>	<u>34,983</u>	<u>35,108</u>	<u>1,779,451</u>

Acquisition cost of the Group's and the Company's property, plant and equipment fully depreciated but still in use as at 31 December 2010, is as follows:

<b>Category of property, plant and equipment</b>	<u>Group at 31 December 2010</u>	<u>Company at 31 December 2010</u>
Buildings	3	3
Structures and machinery	3,038	3,038
Motor vehicles	140	-
Other PP&E	9,764	9,380
<b>Total</b>	<u>12,945</u>	<u>12,421</u>

During 2010, the Company/Group completed the following investment projects:

<b>Project</b>	<b>Total project value from its commencement date (LTL thousand)</b>
Construction of 330kV Bitėnai switchyard (phase I)	11,918
Reconstruction of switchyard at 110/10kV Gargždai transformer substation	2,726
Reconstruction of 110/10kV Merkinė switchyard	2,659
Reconstruction of 110 kV switchyard at 110/10kV Savitiškis transformer substation	2,553

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**6. Investment property**

	<u>Group</u>	<u>Company</u>
Opening net book amount	-	-
Assets received during spin-off (note 32)	-	917
Reclassification from property, plant and equipment to investment property (note 5)	670	670
Depreciation charge	(2)	(4)
<b>Net book amount at 31 December 2010</b>	<b>668</b>	<b>1,583</b>
<b>At 31 December 2010</b>		
Cost	816	1,926
Accumulated depreciation	(148)	(343)
<b>Net book amount at 31 December 2010</b>	<b>668</b>	<b>1,583</b>

As estimated by the Company and based on observable market data, the fair value of the investment property of the Group and the Company as at 31 December 2010 approximates its carrying amount.

The Group's and the Company's income from lease of investment property amounted to LTL 59 thousand in 2010.

**7. Investments**

As at 31 December 2010, the Company had direct control over these subsidiaries:

<b>Subsidiary</b>	<b>Cost</b>	<b>Ownership (% of shares)</b>	<b>Impairment</b>	<b>Carrying amount</b>
<b>At 31 December 2010</b>				
LITGRID AB	9,748	100	-	9,748
TETAS UAB	8,290	61	-	8,290
<b>Total</b>	<b>18,038</b>		-	<b>18,038</b>

LITGRID AB was established at the end of 2009. As the transmission system operator LITGRID AB will be responsible for ensuring effective and reliable operation of the Lithuanian power system starting from 1 January 2010.

Tetas UAB was established on 8 December 2005. The main activity of the Company is reconstruction, repair and maintenance of average voltage of transformer substations and distribution stations. The Company also carries out works of electricity network relay protection and automation, maintenance works of special electricity equipment, maintenance of wiring up to 1000 W, testing and diagnostics works and testing of protective products

The Company also has an indirect control over BALTPOOL UAB (through LITGRID AB) and Energetikos Pajėgos UAB (through TETAS UAB).

BALTPOOL UAB was established at the end of 2009 to perform the functions of the Lithuanian electricity market operator. The principal activity of BALTPOOL UAB is the organisation of transmission trading.

Energetikos Pajėgos UAB was established on 26 November 2003. The principal activity of Energetikos Pajėgos UAB is engineering of energy objects.

The Company and the Group had investments in associates and joint venture:

<b>At 31 December 2010</b>	<u>Group</u>	<u>Company</u>
Technologijų ir Inovacijų Centras UAB	14,382	13,281
Elektros Tinklo Paslaugos UAB	5,060	4,731
LitPol Link Sp.z.o.o	881	1,020
<b>Total</b>	<b>20,323</b>	<b>19,032</b>

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**7. Investments (continued)**

All associates and joint venture were acquired during spin-off (note 32). For the period ended 31 December 2010 the Group recognised LTL 204 thousand loss from associates and joint venture.

The financial position as at 31 December 2010 and operating results of the associates and the joint venture are as follows:

	Assets	Liabilities	Sales revenue*	Profit (loss) for the year*
Technologijų ir Inovacijų Centras UAB	49,460	13,046	4,777	(1,007)
Elektros Tinklo Paslaugos UAB	27,445	8,214	6,605	808
LitPol Link Sp.z.o.o	1,110	375	159	(166)

\*Profit (loss) and sales revenue of subsidiaries are presented for December 2010.

**8. Other financial assets**

As at 31 December 2010, the Group's and the Company's other financial assets designated as held for sale represented shares in the following companies:

	Group at 31 December 2010	Company at 31 December 2010
NT Valdys UAB	1,084	910
<b>Total</b>	<b>1,084</b>	<b>910</b>

The value of financial assets established on the basis of the fair value less costs to sell did not significantly differ from its carrying amount at the year-end.

**9. Inventories**

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

	Group at 31 December 2010	Company at 31 December 2010
Materials and spare parts at acquisition (production) cost	4,363	2,130
Goods for resale at acquisition cost	1	1
Less: Write-down to net realisable value	(661)	(381)
<b>Total</b>	<b>3,703</b>	<b>1,750</b>

The cost of the Group's and the Company's inventories stated at net realisable value as at 31 December 2010 amounted to LTL 879 thousand and LTL 382 thousand, respectively.

The cost the Group's and the Company's inventories recognised as expense during the period ended 31 December 2010 amounted to LTL 32 thousand and LTL 32 thousand, respectively.

Movements in impairment of inventories during the period ended 31 December 2010 are shown in the table below:

	Group at 31 December 2010	Company at 31 December 2010
<b>Provision for impairment of inventories at the beginning of the period</b>	-	-
Write-down received during spin-off (note 32)	631	381
Write-down of inventories during the reporting period	30	-
<b>Provision for impairment of inventories at 31 December</b>	<b>661</b>	<b>381</b>

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

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**10. Trade receivables**

As at 31 December 2010, trade receivables of the Group and the Company are as follows:

	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Receivables for electricity sold	130,057	-
Receivables for contractual works and other services	9,030	-
Unbilled revenue from electricity-related sales	398	-
Amount receivable for lease and maintenance of the network	-	13,424
<b>Total</b>	<b>139,485</b>	<b>13,424</b>

The fair value of trade receivables approximates their carrying amounts.

As at 31 December 2010, the Group and the Company had no impaired accounts receivable.

The ageing analysis of the Group's and the Company's trade receivables that were not recognised as past due or were recognised as past due but not impaired is as follows:

	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Not past due	130,368	13,424
Past due up to 30 days	8,547	-
Past due from 30 to 60 days	570	-
<b>Total</b>	<b>139,485</b>	<b>13,424</b>

**11. Other receivables**

As at 31 December 2010, other trade receivables of the Group and the Company are as follows:

	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Other receivables of asset management fee	7,237	17
Other accrued receivables	1,512	-
VAT receivable from the budget	1,274	1,274
Receivables for lease of assets	341	341
Accrued interest receivable	72	-
Receivables for IT and telecommunications services	1	7
<b>Total</b>	<b>10,437</b>	<b>1,639</b>

As at 31 December 2010, the Group and the Company had no impaired other accounts receivable. All other trade receivables were not past due at the end of the reporting period.

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

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**12. Term deposits**

	<u>Group at 31 December 2010</u>	<u>Company at 31 December 2010</u>
Term deposit at Nordea Bank Finland Plc Lithuania Branch (contract currency litas), maturity – June 2011	17,000	-
Term deposit at Danske Bank A/S, Lithuania Branch, (contract currency litas), maturity – March 2011	10,000	-
Term deposit at Nordea Bank Finland Plc Lithuania Branch (contract currency litas), maturity – May 2011	9,000	-
Term deposit at Nordea Bank Finland Plc Lithuania Branch (contract currency litas), maturity – May 2011	7,000	-
<b>Total</b>	<b><u>43,000</u></b>	<b><u>-</u></b>

The carrying amounts of term deposits approximate their fair values. Weighted average interest rate on the Group's term deposits with maturity exceeding 3 months was 1.82 per cent as at 31 December 2010.

**13. Cash and cash equivalents**

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

	<u>Group at 31 December 2010</u>	<u>Company at 31 December 2010</u>
Cash at bank and in hand	66,623	42,161
Guarantee on the fulfilment of obligations (Note 22)	9,041	-
<b>Total</b>	<b><u>75,664</u></b>	<b><u>42,161</u></b>

The fair values of the Group's and the Company's cash and guarantees on the fulfilment of obligations approximate their carrying amounts.

**14. Share capital and share premium**

As at 31 December 2010, the share capital of the Company was LTL 504,331,384 and it was divided into 504,331,384 ordinary registered shares with the par value of LTL 1 each. All the shares are fully paid. The highest share price at the Stock Exchange session in 2010 was LTL 2.84 per share, the lowest – LTL 2.32 per share. The number of shareholders as at 31 December 2010 was 6,020.

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

Share premium, received during spin-off, amount to LTL 29,621 thousand. Until the spin-off the share premium was formed during increase in share capital of Lietuvos energija AB as a difference between the shares nominal value and the proceeds received.

The Company manages its capital structure and makes the adjustments to it in the light of changes in economic 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 the shareholders or issue new shares.

According to the Law on Companies of the Republic of Lithuania, equity of the Company must account for at least ½ of the amount of the authorised share capital. No other external capital requirements have been imposed on the Company. As at 31 December 2010, the Company was not in breach of the above mentioned requirement.

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**15. Revaluation reserve**

Group/Company	Revalua- tion reserve	Deferred income tax	Net of deferred tax
<b>Balance at the beginning of the period</b>	-	-	-
Revaluation reserve established during the spin-off (note 32)	352,449	(52,867)	299,582
Depreciation of revaluation reserve	(2,540)	381	(2,159)
Non-current assets write-offs	(1,259)	189	(1,070)
<b>Balance at 31 December 2010</b>	<b>348,650</b>	<b>(52,297)</b>	<b>296,353</b>

**16. Legal reserve**

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. During the spin-off process the legal reserve established at the Group and at the Company amounted to LTL 47,730 thousand and LTL 47,665 thousand, respectively.

**17. Grants**

The grants balance consists of grants related to the financing of assets acquisition. Movements in grants in 2010 are as follows:

	<u>Group</u>	<u>Company</u>
<b>Balance at the beginning of the period</b>	-	-
Grants received during the spin-off (note 32)	42,507	42,507
Utilised during the period	(158)	(158)
<b>Balance at 31 December 2010</b>	<b>42,349</b>	<b>42,349</b>

**18. Deferred income**

	<u>Group at 31 December 2010</u>	<u>Company at 31 December 2010</u>
Deferred income from new users (note 24)	15,417	15,417
<b>Total</b>	<b>15,417</b>	<b>15,417</b>



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**19. Other non-current accounts payable and liabilities**

	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Provisions for pensions of employees	438	234
Guarantee provisions	21	-
<b>Total</b>	<b>459</b>	<b>234</b>

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

Guarantee provisions represent obligations for the period of several years during which it is committed to provide guarantee repairs free of charge.

**20. Income tax**

As at 31 December 2010, income tax expenses comprise as follows:

	<b>Group 2010</b>	<b>Company 2010</b>
<b>Income tax expense components:</b>		
Current income tax	2,454	322
Deferred income tax (benefit)	(1,874)	(1,741)
<b>Income tax expense (income) for the reporting period</b>	<b>580</b>	<b>(1,419)</b>

Movements in the Group's and the Company's deferred tax assets during the reporting period are as follows:

Company/Group	Revaluation of PP&E to deemed cost (impairment)	Accrued expenses	Impairment of assets	Total
<b>Deferred income tax assets</b>				
<b>Balance at the beginning of the period</b>	-	-	-	-
Balances arising during the spin-off	2,196	97	11,470	13,763
Recognised in profit or loss	(14)	7	(61)	(68)
<b>At 31 December 2010</b>	<b>2,182</b>	<b>104</b>	<b>11,409</b>	<b>13,695</b>

Company/Group	Revaluation of PP&E (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Total
<b>Deferred income tax liabilities</b>				
<b>Balance at the beginning of the period</b>	-	-	-	-
Balances arising during the spin-off	(197,493)	(723)	(10,915)	(209,131)
Recognised in profit or loss	1,558	35	216	1,809
<b>At 31 December 2010</b>	<b>(195,935)</b>	<b>(688)</b>	<b>(10,699)</b>	<b>(207,322)</b>

<b>Deferred income tax, net, formed during the spin-off (note 32)</b>	<b>(195,368)</b>
<b>Deferred income tax, net, at 31 December 2010</b>	<b>(193,627)</b>

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**20. Income tax (continued)**

Deferred tax assets were offset with deferred tax liability in the Company's statement of financial position as they relate to the same fiscal authority. In the Group deferred income tax assets related to operations of subsidiaries are not offset against deferred income tax liability in the Company and are presented separately as non-current assets in the statement of financial position.

When calculating deferred income tax as at 31 December 2010, the Company applied income tax rate of 15 per cent on those components which will be realised in 2011 and subsequent periods.

Deferred income tax to be realised within 12 months amounts to LTL 13,435 thousand.

Income tax expense disclosed in the statement of comprehensive income may be reconciled to income tax expense that would arise using an enacted income tax rate applicable to profit before income tax.

	<b>Group 2010</b>	<b>Company 2010</b>
<b>Profit (loss) before income tax</b>	<b>2,953</b>	<b>(9,622)</b>
Income tax calculated at a rate of 15 per cent	443	(1,443)
Tax effect of income or expenses that are not subject to tax or deductible	137	24
<b>Income tax expense (income) for the reporting period</b>	<b>580</b>	<b>(1,419)</b>

**21. Trade payables**

As at 31 December 2010, trade payables of the Group and the Company are as follows:

	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Amounts payable for PSO energy supplied	46,180	-
Amounts payable for electricity	42,433	-
Amounts payable for contractual works, other services	24,371	22,298
Accrued liability for electricity	15,445	-
Amounts payable for material values	3,796	250
Amounts payable for electricity transit	1,339	-
Amounts payable for lease and maintenance of transmission network, other services	555	-
Turnover fee payable to Nordpool	211	-
<b>Total</b>	<b>134,330</b>	<b>22,548</b>

The fair value of trade payables approximates their carrying amounts.

**22. Prepayments**

At 31 December 2010 and 31 December 2009, the Group's and the Company's prepayments received consisted of the following:

	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Guarantee on fulfilment of obligations	9,041	-
Other prepayments received	2,257	1,724
<b>Total</b>	<b>11,298</b>	<b>1,724</b>

According to the Lithuanian Day Ahead Electricity Market Regulations in order to ensure the fulfilment of obligations the electricity market participants are required to present to BALTPPOOL UAB a bank guarantee on the fulfilment of their obligations not later than within 10 (ten) working days before the commencement date of the trading session and/or provide a monetary collateral. Monetary collaterals received from market participants amounted to LTL 9,041 thousand as at 31 December 2010.

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**23. Other accounts payable**

As at 31 December 2010, other accounts payable of the Group and the Company are as follows:

	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Advances received from new users	13,546	13,546
VAT payable to the budget	4,869	-
Costs relating to accrued vacation reserve	1,404	461
Employment-related liabilities	1,054	182
Accrued other charges	1,153	344
Real estate tax payable	199	197
Other payables and current liabilities	<u>147</u>	<u>18</u>
<b>Total</b>	<b><u>22,372</u></b>	<b><u>14,748</u></b>

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

Advances received from new users represent advances received from new users for connection to electricity networks. These advances will be recognised as income upon the provision of connection services.

**24. Sales revenue**

The Group's and the Company's sales revenue consists of revenue from sale of electricity and related services. Sales revenue for the period from the date of the company's establishment to 31 December 2010 are presented below:

	<b>Group 2010</b>	<b>Company 2010</b>
Public service obligations (PSO)	47,446	-
Electricity transmission service	26,010	-
Domestic sales of electricity (excluding PSO)	7,273	-
Capacity reserve	7,277	-
Other sales of electricity and related services	2,200	-
Revenue from connection of new users	60	60
Income from lease of the transmission network	<u>-</u>	<u>11,094</u>
<b>Total</b>	<b><u>90,266</u></b>	<b><u>11,154</u></b>

\* The Company and the Group accounted for LTL 15,417 thousand of deferred income related to the connection of new users and LTL 13,546 thousand of related advances received from new users for connection to electricity networks which are reclassified to income upon the provision of connection services. From the date of establishment the Company/Group recognised income of LTL 60 thousand from connection of new users.

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## 25. Segment information

In 2010, management distinguished business segments based on the reports reviewed by the Board. The Board analyses business operations by geographical areas and types of products provided. Operating profit (loss) is a profitability indicator analysed by management.

The Group has distinguished the following business segments (activities): activities of the transmission system operator consisting of five individual segments as explained below, market operator and other activities. Aiming to match the structure of income and expenses of the transmission activity with the Methodology of the Determination of Prices and Price Caps of Electricity Transmission and Distribution Services developed by the National Control Commission for Prices and Energy (approved by Order No. O3-139 of 25 September 2009) in the preparation of the income statement, the following products (services) are distinguished in activities of the transmission system operator:

- electricity transmission;
- trade in balancing/regulating electricity;
- provision of capacity reserve services;
- public service obligations (PSO) electricity sales;
- other activities of transmission system operator.

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

Trade in balancing/regulating electricity is a separate service of the transmission system operator ensuring the balance of electricity generation and consumption levels.

The power reserve is needed when there is an emergency reduction in electricity production or increase in its consumption. The Company carries out control and management of all types of power reserves and additional services.

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

BALTPPOOL UAB carries out the functions of the Lithuanian power market operator. BALTPPOOL UAB does not recognise income and expenses from transmission trading and a turnover fee in the power exchange as it acts as an agent rather than a principal electricity buyer/seller in transactions related to settlement for electricity purchased/sold at the power exchange. BALTPPOOL UAB generates income from provision of market administration services.

TETAS UAB, subsidiary of the Company, and Energetikos Pajėgos UAB, subsidiary of TETAS UAB, are engaged in other type of activities. These activities include repair services of energy facilities, specialised technical maintenance of transformer substations, distribution stations, engineering, installation of energy objects and other services.

Transactions between the Group companies are conducted at market prices, except for transmission trading and the related services which are traded within the Group at prices established by the Commission.

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**25 Segment information (continued)**

The Group's information on segments as at 31 December 2010 and for the period then ended is presented in the table below:

	Business segments generating revenue from external sales							Total	
	Trans- mission system operator	Including:				Other activities of trans- mission system operator	Activities of market operator		Other activities
		Trans- mission	Trade in balancing/ regulating electricity	Sales of capacity reserve services	Public service obligations electricity sale				
Revenue	90,286	26,010	7,273	7,277	47,446	2,280	150	7,733	98,169
Internal turnover among segments	(20)	-	-	-	-	(20)	(150)	(764)	(934)
<b>Revenue, net of internal turnover among segments</b>	<b>90,266</b>	<b>26,010</b>	<b>7,273</b>	<b>7,277</b>	<b>47,446</b>	<b>2,260</b>	<b>-</b>	<b>6,969</b>	<b>97,235</b>
Expenses	87,513	28,516	6,451	13,065	37,599	1,882	291	7,276	95,080
Inter-segment expenses	(20)	-	-	-	-	(20)	(150)	(742)	(912)
<b>Expenses, net of inter- segment expenses</b>	<b>87,493</b>	<b>28,516</b>	<b>6,451</b>	<b>13,065</b>	<b>37,599</b>	<b>1,862</b>	<b>141</b>	<b>6,534</b>	<b>94,168</b>
<b>Operating profit (loss)</b>	<b>2,773</b>	<b>(2,506)</b>	<b>822</b>	<b>(5,788)</b>	<b>9,847</b>	<b>398</b>	<b>(141)</b>	<b>435</b>	<b>3,067</b>
Depreciation and amortisation expense	10,915	10,915	-	-	-	-	-	92	11,007
<b>Net finance income (expenses)</b>									<b>(114)</b>
<b>Profit (loss) before income tax</b>									<b>2,953</b>
<b>Income tax</b>									<b>(580)</b>
<b>Profit (loss) for the year</b>									<b>2,373</b>

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**25 Segment information (continued)**

The Group renders the electricity regulation service to the EU Member States and the electricity transit service to the Russian transmission system operator.

In 2010, the Group's and the Company's revenue according to geographical segments was as follows:

<b>Country</b>	<b>Group 2010</b>	<b>Company 2010</b>
Lithuania	96,837	11,444
Russia	389	-
Estonia	9	-
<b>Total</b>	<b>97,235</b>	<b>11,444</b>

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

In 2010, the Group's and the Company's income from one external customer amounted to LTL 70,949.

**26. Other operating income**

In 2010, the Group's and the Company's other operating income included as follows:

	<b>Group 2010</b>	<b>Company 2010</b>
Repairs and other services	6,446	-
Engineering works	233	-
Income from lease of assets	282	282
Other income	8	8
<b>Total income from other activities</b>	<b>6,969</b>	<b>290</b>

Income from repair services represents revenue received by subsidiary TETAS UAB under the contracts concluded. Information about contracts in progress as at 31 December 2010 is presented in the table below:

	<b>Group at 31 December 2010</b>
Total income from repair services from the commencement date of the projects	1,659
Total expenses of repair services from the commencement date of the projects	1,653
Profit of the projects	6

**27. Finance income**

In 2010, the Group's and the Company's finance income included as follows:

	<b>Group 2010</b>	<b>Company 2010</b>
Interest income	92	-
Other income	5	-
<b>Total finance income</b>	<b>97</b>	<b>-</b>

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**28. Related-party transactions**

The Group's transactions with related parties during 2010 and the balances arising on these transactions as at 31 December 2010 are presented below:

Related parties	Trade and other payables and prepayments	Trade and other receivables	Purchases	Sales
Entities controlled by the Ministry of the Energy of the Republic of Lithuania	68,407	125,684	108,829*	208,005*
Group's associates	2,835	706	4,878	389
Parent company (Visagino atomine elektrine UAB)	-	-	-	-
<b>Total</b>	<b>71,242</b>	<b>126,390</b>	<b>113,707</b>	<b>208,394</b>

\*As described in Group's accounting policy, BALTPPOOL UAB does not recognise electricity purchases and sales as income and expense. During December 2010 BALTPPOOL UAB has purchased electricity from related parties for the amount LTL 63,802 thousand and has sold electricity to related parties for the amount of LTL 124,410 thousand.

The Company's transactions with related parties conducted during 2010 and the balances arising on these transactions as at 31 December 2010 are presented below:

Related parties	Trade and other payables and prepayments	Trade and other receivables	Purchases	Sales
Company's associates	2,526	124	4,681	103
Entities controlled by the Ministry of the Energy of the Republic of Lithuania	2,290	292	1,017	179
Company's subsidiaries	1,507	13,444	1,023	11,094
Parent company (Visagino atomine elektrine UAB)	-	-	-	-
<b>Total</b>	<b>6,323</b>	<b>13,860</b>	<b>6,721</b>	<b>11,376</b>

The major related-party sale and purchase transactions in 2010 represented transactions with the entities controlled by the Ministry of Energy of the Republic of Lithuania: Rytų Skirstomieji Tinklai AB, VST AB and Lietuvos Elektrinė AB. The Group mainly purchases electricity, a capacity reserve service and PSO services from these entities. Sales transactions mainly included sales of electricity, capacity reserve service, electricity transmission services and PSO services.

**Payments to key management personnel**

	Group 2010	Company 2010
Employment-related payments	173	35
Termination benefits		
Other material amounts calculated for key management personnel		
Number of key management personnel	19	3

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

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**29. Basic and diluted earnings per share**

In 2010, basic and diluted earnings per share were as follows:

	<u>2010</u>
Net profit (loss) attributable to the Group's shareholders (thousands, LTL)	2,366
Weighted average number of shares (units)	<u>504,331,380</u>
<b>Basic and diluted earnings per share (in LTL)</b>	<u><b>0.01</b></u>

**30. Financial risk management**

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

**Financial instruments by category**

<b>Financial assets</b>	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Trade receivables	139,485	13,424
Other receivables	7,579	365
Term deposits	43,000	-
Cash and cash equivalents	<u>75,664</u>	<u>42,161</u>
<b>Loans and receivables</b>	<b>265,728</b>	<b>55,950</b>
<b>Other financial assets</b>		
Available-for-sale investments	<u>1,084</u>	<u>910</u>
<b>Total</b>	<u><b>266,812</b></u>	<u><b>56,860</b></u>
<b>Financial liabilities</b>	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Trade payables	134,330	22,548
Other accounts payable and liabilities	<u>1,054</u>	<u>182</u>
<b>Financial liabilities carried at amortised cost</b>	<u><b>135,384</b></u>	<u><b>22,730</b></u>

**Credit risk**

As at 31 December 2010, credit risk was related to the following items:

	<b>Group at 31 December 2010</b>	<b>Company at 31 December 2010</b>
Financial assets	266,812	56,860

The maximum exposure to credit risk is represented by the carrying amount of each financial asset.



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**30. Financial risk management (continued)**

The credit risk of the Group and the Company related to the accounts receivable is limited because the main buyers are reliable customers. As at 31 December 2010, trade receivables neither past due nor impaired were of high credit quality as the majority of these receivables is due from electricity producers and large industrial companies. The Group and the Company have a significant credit risk concentration, because credit risk is shared among 10 main customers, which account for approximately 96 and 99 per cent of the total Group's and the Company's trade receivables.

The credit risk on cash in banks is limited because the Company conduct transactions with the banks with high credit ratings assigned by international credit rating agencies. The Group and the Company hold cash balances and term deposits in accounts of the major Lithuanian banks assigned with the following external credit rating by the rating agency Fitch Ratings:

Nordea	AA-
Danske bank	A+
Swedbank	A
SEB	A+

**Liquidity risk**

The liquidity risk is managed by planning the cash flows of the Group. In order to manage the liquidity risk, cash flow forecasts are prepared. Activities of group company BALTPPOOL UAB and electricity market participants are regulated by the Lithuanian Day Ahead Electricity Market Regulations. According the Regulations a participant should settle with the market operator (BALTPPOOL UAB) and transfer funds by a bank transfer to the settlement account opened on behalf of the market operator not later than until 13:00 pm of the second working day after the end of the calendar week of the trading session. BALTPPOOL UAB not later than within the fourth working day after the end of the calendar week of the trading session, but not earlier than the next working day after the receipt of VAT invoice from the participant (a seller) should pay to the participant (a seller) for the quantity of electricity sold by it by making a bank transfer to the settlement account opened on the behalf of the participant (a seller). If the amount owed by the participant to the market operator is higher than 2/3 of the amount indicated in the guarantee, the market operator has the right to demand that the bank which issued a guarantee settles the total amount owed by the participant or use a monetary collateral held at the account designated for the settlement of the participant's liabilities; and suspend the trade right of the participant starting from the next trade date upon notifying the participant and the bank which issued a guarantee. If the participant fails to fulfil the guarantee or settlement obligations, the market operator has the right to instruct the participant to withdraw all its biddings and fulfil unsettled obligations; retain the guarantee amount and offset amounts receivable of the participant against liabilities of the participant with respect to the market operator; in case of failure to fulfil main obligations, terminate the contract with the participant.

The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as at 31 December 2010 were 1.51 and 1.49 respectively. The Company's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as at 31 December 2010 were 1.50 and 1.46 respectively.

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

Group	Within the	Within	Within	After five
	first year	the second year	third - fifth years	
<b>At 31 December 2010</b>				
Trade and other payables	135,384	-	-	-
Company	Within the	Within	Within	After five
	first year	the second year	third - fifth years	
<b>At 31 December 2010</b>				
Trade and other payables	22,730	-	-	-

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### **30. Financial risk management (continued)**

#### **Interest rate risk**

The Company and the Group does not experience significant interest rate risk, because main interest bearing financial assets are term deposits with fixed interest rates. Guarantees on the fulfilment of obligations received by the Group are held at bank and bear interest linked with VILIBOR. The impact on Group's profit before tax of 1 per cent increase/decrease in interest rate would be LTL 90 thousand as at 31 December 2010.

#### **Foreign exchange risk**

In order to manage the foreign exchange risk, the Group companies conclude purchase/sale transactions mainly in the euro or the litas. With effect from 1 February 2002, the exchange rate of the litas is pegged to the euro. As a result, changes in exchange rates of foreign currencies do not have a significant impact on the Company's equity.

The companies comprising the Group have no significant concentration of foreign exchange risk; therefore, they did not use any financial instruments for managing the foreign exchange risk in 2010 and 2009.

#### **Risk of security prices**

As at 31 December 2010, the Group/Company is not exposed to risk of security prices.

#### **Fair value of financial assets and liabilities**

The Group's and the Company's principal financial assets and liabilities not carried at fair value are trade receivables and other accounts receivable, term deposits, cash and cash equivalents, trade payables and other payables.

Fair value is defined as the amount at which the instrument could be exchanged or at which a mutual liability could be set off between knowledgeable parties in an arm's length transaction willing to buy/sell an asset or to set off a mutual liability. Fair value is determined on the basis of quoted market prices, discounted cash flow models and option pricing models as appropriate.

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

- The carrying amount of current trade and other accounts receivable, term deposits, cash and cash equivalents, current trade and other accounts payable approximates their fair value.
- The value of financial assets held for sale is determined based on the estimation of the value of the investee using the fair value less costs to sell method. The fair value determined is classified in the category of valuation models which are not based on observable market data.

### **31. Commitments, contingencies and rights**

#### **Guarantees issued and received**

In order to ensure the fulfilment of obligations the power exchange participants are required to present to BALTPPOOL UAB the bank guarantee on the fulfilment of their obligations not later than within 10 (ten) working days before the commencement date of the trading session at the power exchange and/or provide a monetary collateral. As at 31 December 2010, bank guarantees received by BALTPPOOL UAB from other participants of the power exchange than the Group companies amounted to LTL 24,143 thousand.

#### **Lease of electricity transmission equipment**

According to the agreement concluded between the Company and LITGRID AB, until the merger the Company provides to LITGRID AB the transmission network lease, maintenance and other services. The contractual monthly payment is LTL 11,094 thousand.

#### **Lease of other assets**

According to the agreement between the Company and NT valdos UAB, the Company rents administrative premises in Vilnius, Juozapavičius st. 13. Monthly rent fee according to the agreement is LTL 104 thousand. Rent agreement is valid till the end of 2011.

According to the agreement between the Company and NT valdos UAB, the Company rents cars. Monthly rent fee according to the agreement is LTL 31 thousand and monthly maintenance fee is LTL 40 thousand. Rent agreement is valid till 1 April and will be prolonged for 6 months.

#### **Legal proceedings**

There is no material pending or probable legal disputes where the Company/Group is involved as a defendant.

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**32. Final spin-off balance sheets of LITGRID Turtas AB**

	Note s	Group at 30 November 2010	Company at 30 November 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	4	1,638	411
Property, plant and equipment*	5	2,066,117	2,055,079
Investments in subsidiaries		-	18,038
Investments in associates and joint ventures**	7,8	21,611	19,942
Deferred income tax assets		189	-
<b>Total non-current assets</b>		<b>2,089,555</b>	<b>2,093,470</b>
<b>Current assets</b>			
Inventories		4,968	1,622
Prepayments		835	-
Trade receivables		117,813	-
Other receivables		9,206	-
Term deposits		26,000	-
Cash and cash equivalents		98,727	42,815
<b>Total current assets</b>		<b>257,549</b>	<b>44,437</b>
<b>TOTAL ASSETS</b>		<b>2,347,104</b>	<b>2,137,907</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital		504,331	504,331
Share Premium		29,621	29,621
Revaluation reserve		299,582	299,582
Legal reserve		47,730	47,665
Retained earnings (deficit)		1,041,859	987,397
<b>Total equity attributable to parent</b>		<b>1,923,123</b>	<b>1,868,596</b>
<b>Non-controlling interest</b>		<b>3,352</b>	<b>-</b>
<b>Total equity</b>		<b>1,926,475</b>	<b>1,868,596</b>
<b>Non-current liabilities</b>			
Grants	17	42,507	42,507
Deferred income		15,631	15,631
Other non-current accounts payable and liabilities		438	234
Deferred income tax liabilities	20	195,368	195,368
<b>Total non-current liabilities</b>		<b>253,944</b>	<b>253,740</b>
<b>Current liabilities</b>			
Borrowings		158	-
Trade payables		129,446	-
Advance amounts received		9,512	1,000
Payable income tax		10,497	-
Other accounts payable		17,072	14,571
<b>Total current liabilities</b>		<b>166,685</b>	<b>15,571</b>
<b>Total liabilities</b>		<b>420,629</b>	<b>269,311</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,347,104</b>	<b>2,137,907</b>

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**32. Final spin-off balance sheets of LITGRID Turtas AB (continued)**

\*As at 30 November 2010 Group's and Company's property, plant and equipment includes prepayments for property, plant and equipment amounting to LTL 1,967 thousand and Company's investment property amounting to LTL 917 thousand.

\*\* As at 30 November 2010 Group's and Company's investments in associates and joint venture includes other financial assets amounting to respectively LTL 1,084 thousand and LTL 910 thousand.

The principles of the preparation of the final spin-off balance sheets are described in the spin-off terms and conditions of Lietuvos Energija AB.

During the spin-off, the spin-off part, including the activity carried out by Lietuvos Energija AB of the Transmission System Operator, activity of the electricity market operator and part of the Information Technologies and other electrical energy activity relating to the activity carried out by the Transmission System Operator, have been transferred to the Company by transferring the entire assets, rights and obligations of Lietuvos Energija AB related to the spin-off part.

The spin-off was carried so that the amount of the authorised capital and the number of the shares transferred to the LITGRID AB and retained by AB Lietuvos energija after the spin-off are directly proportionate to their shareholders' interests in the equity of the Shareholders of AB Lietuvos energija before the spin-off.

The entire non-current and current assets and liabilities of Lietuvos energija AB relating to the spin-off part and based principles of preparation of Spin-off balance sheet was specified in the Transfer-Acceptance Act (see above) and transferred to the LITGRID turtas, AB.

**33. Significant events after the balance sheet date**

On 24 January 2011, the extraordinary general meeting of shareholders of LITGRID Turtas AB was convened where shareholders of LITGRID Turtas AB approved the terms and conditions of the reorganisation of LITGRID Turtas AB and LITGRID AB and resolved to reorganise LITGRID Turtas AB and LITGRID AB by way of merger pursuant to paragraph 3 of Article 2.97 of the Lithuanian Civil Code and the reorganisation terms and conditions of LITGRID Turtas AB and LITGRID AB by merging LITGRID AB, which ceases its activities after the reorganisation, with LITGRID Turtas AB, which continues its activities after the reorganisation and to which all assets, rights and obligations of LITGRID AB will be transferred.

Based on the reorganisation terms and conditions of LITGRID Turtas AB and LITGRID AB approved by the decisions of the extraordinary general meetings of shareholders of LITGRID AB and LITGRID Turtas AB dated 24 January 2011, a transfer-acceptance act was signed between LITGRID AB and LITGRID Turtas AB. On the basis of this transfer-acceptance act LITGRID Turtas AB took over all assets, rights and obligations of LITGRID AB in the manner prescribed in the reorganisation terms and conditions of LITGRID AB and LITGRID Turtas AB. The moment of the take-over of assets, rights and obligations of LITGRID AB by LITGRID Turtas AB is 1 March 2011, 00:00 am.

On 8 February 2011, the Boards of TETAS UAB and Energetikos Pajėgos UAB having obtained approvals from shareholders and following the provisions of paragraph 1 of Article 63 of the Lithuanian Law on Companies, drafted the terms and conditions of the reorganisation of TETAS UAB and Energetikos Pajėgos UAB. The Board of TETAS UAB plans to convene an extraordinary general meeting of shareholders between 21–28 of March 2011 and approve the merger of Energetikos Pajėgos UAB with TETAS UAB with effect from 1 April 2011.

On 14 March 2011, new version of the statute of LITGRID AB was registered in the Register of Legal Entities, and the name of the Company LITGRID turtas AB was changed to LITGRID AB.

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