LESTO AB
CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2011 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED ANNUAL REPORT

CONTENTS

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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 LESTO AB

Report on the financial statements

We have audited the accompanying stand alone and consolidated financial statements (together 'the Financial statements') of LESTO AB ('the Company') and its subsidiaries (collectively 'the Group') set out on pages 5 – 44 which comprise the stand alone and consolidated statement of financial position as of 31 December 2011 and the stand alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, 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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Basis for Qualified Opinion

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 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 management has not reassessed fair values of property, plant and equipment with the carrying amounts of LTL 4,675 million and LTL 4,727 million, respectively, as of 31 December 2011 (LTL 4,821 million and LTL 4,845 million, respectively, as of 31 December 2010), or carried out a proper impairment test. It has not been possible to estimate reliably the effects of this non-compliance on the Financial statements.

Qualified opinion

In our opinion, except for the effect of the matter described in the *Basis for Qualified Opinion* 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 2011, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2011 set out on pages 45 - 112 and have not noted any material inconsistencies between the financial information included in it and the audited Financial statements for the year ended 31 December 2011.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457
Authorised to act for and on behalf of PricewaterhouseCoopers UAB
based on the Power of Attorney dated 16 June 2010

Vilnius, Republic of Lithuania
27 March 2012

Statement of financial position

	Notes	GROUP		COMPANY	
ASSETS		31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Non-current assets					
Property, plant and equipment	4	4 823 970	5 010 983	4 676 010	4 820 852
Intangible assets	5	5 728	4 871	5 672	4 859
Prepayments for property, plant and equipment and intangible assets		7 344	2 233	7 344	2 233
Investments in subsidiaries	32	-	-	191 018	191 018
Investments in associates	31	21 194	18 693	21 570	21 570
Investment property	6	135 588	122 677	-	-
Deferred income tax assets	20	-	168	-	-
Non-current amounts receivable	7	2 369	10 095	2 369	10 095
		4 996 193	**5 169 720**	**4 903 983**	**5 050 627**
Current assets					
Inventories	8	14 404	13 867	11 817	11 121
Trade and other receivables	9	184 228	202 234	178 478	199 163
Prepayments, deferred charges and accrued income	10	24 230	30 003	23 921	29 655
Prepaid income tax		22	7	-	-
Time deposits	12	5 000	5 500	-	5 500
Cash and cash equivalents	12	58 708	139 621	44 161	130 132
		286 592	391 232	258 377	375 571
Non-current assets classified as held for sale		760	760	-	-
		287 352	**391 992**	**258 377**	**375 571**
Total assets		**5 283 545**	**5 561 712**	**5 162 360**	**5 426 198**
EQUITY					
Equity and reserves attributable to owners of the Company					
Share capital	13	603 945	603 945	603 945	603 945
Revaluation reserve	14	1 837 060	2 068 003	1 803 976	2 032 898
Legal reserve	14	60 465	60 574	60 394	60 394
Other reserves	14	-	271	-	-
Retained earnings		1 014 492	897 623	1 060 429	939 141
		3 515 962	**3 630 416**	**3 528 744**	**3 636 378**
Non-controlling interests		**127 380**	**133 601**	-	-
Total equity		**3 643 342**	**3 764 017**	**3 528 744**	**3 636 378**
LIABILITIES					
Non-current liabilities					
Borrowings	19	325 362	219 322	325 362	219 322
Deferred income tax liability	20	391 813	432 675	389 643	428 324
Deferred income	15	334 086	356 912	334 086	356 912
Grants and subsidies	16	46 370	50 867	46 370	50 867
Non-current employee benefits		3 452	4 326	3 346	4 247
Other non-current liabilities		510	593	510	593
		1 101 593	**1 064 695**	**1 099 317**	**1 060 265**
Current liabilities					
Borrowings	19	119 366	320 592	119 366	320 592
Trade and other payables	17	300 419	341 479	298 280	339 756
Advance amounts received, accrued charges and deferred income	18	88 635	66 665	86 463	64 943
Derivative financial instruments	11	1 511	1 229	1 511	1 229
Income tax payable		28 679	3 035	28 679	3 035
		538 610	**733 000**	**534 299**	**729 555**
Total liabilities		**1 640 203**	**1 797 695**	**1 633 616**	**1 789 820**
Total equity and liabilities		**5 283 545**	**5 561 712**	**5 162 360**	**5 426 198**

The notes on pages 9 to 44 are an integral part of these financial statements.

The financial statements on pages 5 to 44 were approved by LESTO AB Chief Executive Officer and Director of Finance and Administration Division on 27 March 2012.

Chief Executive Officer	Arvydas Tarasevičius	
Director of Finance and Administration Division	Ramutė Ribinskienė	

Statement of comprehensive income

	Notes	GROUP		COMPANY	
		2011	**2010**	**2011**	**2010**
Revenue	21	2 245 484	2 429 968	2 216 320	2 420 942
Purchase of electricity		(1 547 677)	(1 704 186)	(1 547 677)	(1 704 186)
Depreciation and amortisation	4,5,16	(431 541)	(450 344)	(421 006)	(445 846)
Employee benefits and related social security contributions	22	(156 803)	(189 377)	(132 959)	(167 434)
Repair and maintenance expenses		(70 554)	(69 803)	(76 127)	(81 227)
Transportation expenses		(11 834)	(3 528)	(18 789)	(10 077)
Telecommunications and IT services		(22 150)	(11 307)	(20 641)	(11 196)
Rent and utility services		(9 183)	(5 459)	(12 858)	(9 726)
Revaluation of property, plant and equipment	4	(8 753)	(23 297)	(15)	(24 326)
Effect of change in the value of investment property	6	(15 989)	-	-	-
Other expenses	24	(40 295)	(43 150)	(36 160)	(39 241)
Operating profit (loss)		**(69 295)**	**(70 483)**	**(49 912)**	**(72 317)**
Finance income	23	3 572	7 643	3 602	8 353
Finance costs	23	(10 350)	(10 776)	(10 331)	(10 746)
Finance costs – net		**(6 778)**	**(3 133)**	**(6 729)**	**(2 393)**
Share of profit/(loss) of associates	31	264	(1 269)	-	-
Profit from change in ownership interest in associate		2 237	-	-	-
Profit (loss) before tax		**(73 572)**	**(74 885)**	**(56 641)**	**(74 710)**
Income tax	20	12 191	12 511	9 897	12 772
Profit (loss) for the year		**(61 381)**	**(62 374)**	**(46 744)**	**(61 938)**
Other comprehensive income					
Gain (loss) on revaluation of property, plant and equipment	4	2 005	1 505	127	886
Share of other comprehensive income (loss) of associates	31	-	(1 559)	-	-
Effect of deferred income tax	20	(301)	829	(19)	922
Other comprehensive income (loss)		**1 704**	**775**	**108**	**1 808**
Total comprehensive income (loss) for the year		**(59 677)**	**(61 599)**	**(46 636)**	**(60 130)**
Profit (loss) for the year attributable to:					
Owners of the Company		(54 488)	(63 354)	(46 744)	(61 938)
Non-controlling interests		(6 893)	980	-	-
		(61 381)	**(62 374)**	**(46 744)**	**(61 938)**
Total comprehensive income (loss) attributable to:					
Owners of the Company		(53 456)	(62 731)	(46 636)	(60 130)
Non-controlling interests		(6 221)	1 132	-	-
		(59 677)	**(61 599)**	**(46 636)**	**(60 130)**
Basic and diluted earnings (loss) per share (in LTL) attributable to owners of the Company	25	(0,090)	(0,105)	(0,077)	(0,103)

The notes on pages 9 to 44 are an integral part of these financial statements.

Statement of changes in equity

GROUP	Note	Attributable to owners of the Company							
		Share capital	**Revaluation reserve**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2010		**603 945**	**2 290 175**	**60 705**	**1 638**	**847 470**	**3 803 933**	**-**	**3 803 933**
Comprehensive income									
Profit (loss) for the year		-	-	-	-	(63 354)	(63 354)	980	(62 374)
Other comprehensive income (loss)	14	-	2 182	-	-	(1 559)	623	152	775
Disposal of subsidiaries		-	(809)	(56)	-	97	(768)		(768)
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(223 527)	-	-	223 527	-	-	-
Total comprehensive income		**-**	**(222 154)**	**(56)**	**-**	**158 711**	**(63 499)**	**1 132**	**(62 367)**
Transactions with owners									
Reserves utilised		-	-	(75)	(1 367)	1 434	(8)	-	(8)
Dividends relating to 2009	26					(105 919)	(105 919)		(105 919)
Total transactions with owners		**-**	**-**	**(75)**	**(1 367)**	**(104 485)**	**(105 927)**	**-**	**(105 927)**
Change in ownership interest in subsidiaries not resulting in loss of control	32					(3 424)	(3 424)	14 370	10 946
Non-controlling interests' contribution to share capital of subsidiaries	32							118 369	118 369
Loss on business exchange transaction	33		(18)			(649)	(667)	(270)	(937)
Total transactions with owners		**-**	**(18)**	**-**	**-**	**(4 073)**	**(4 091)**	**132 469**	**128 378**
Balance at 31 December 2010		**603 945**	**2 068 003**	**60 574**	**271**	**897 623**	**3 630 416**	**133 601**	**3 764 017**
Balance at 1 January 2011		**603 945**	**2 068 003**	**60 574**	**271**	**897 623**	**3 630 416**	**133 601**	**3 764 017**
Comprehensive income									
Net profit (loss) for the year		-	-	-	-	(54 488)	(54 488)	(6 893)	(61 381)
Other comprehensive income (loss)	14	-	1 032	-	-	-	1 032	672	1 704
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(231 975)	-	-	231 975	-	-	-
Total comprehensive income		**-**	**(230 943)**	**-**	**-**	**177 487**	**(53 456)**	**(6 221)**	**(59 677)**
Transactions with owners									
Transfers to reserves		-	-	70		(70)		-	-
Reserves utilised		-	-	(179)	(271)	450		-	-
Dividends relating to 2010						(60 998)	(60 998)		(60 998)
Total transactions with owners		**-**	**-**	**(109)**	**(271)**	**(60 618)**	**(60 998)**	**-**	**(60 998)**
Balance at 31 December 2011		**603 945**	**1 837 060**	**60 465**	**-**	**1 014 492**	**3 515 962**	**127 380**	**3 643 342**

COMPANY	Note	**Share capital**	**Revaluation reserve**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2010		**603 945**	**2 284 558**	**60 394**	**-**	**853 530**	**3 802 427**
Profit (loss) for the year		-	-	-	-	(61 938)	(61 938)
Other comprehensive income (loss)	14	-	1 808	-	-	-	1 808
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(253 468)	-	-	253 468	-
Total comprehensive income		**-**	**(251 660)**	**-**	**-**	**191 530**	**(60 130)**
Transactions with owners		-	-	-	-	-	-
Dividends relating to 2009	26	-	-	-	-	(105 919)	(105 919)
Total transactions with owners		**-**	**-**	**-**	**-**	**(105 919)**	**(105 919)**
Balance at 31 December 2010		**603 945**	**2 032 898**	**60 394**	**-**	**939 141**	**3 636 378**
Balance at 1 January 2011		**603 945**	**2 032 898**	**60 394**	**-**	**939 141**	**3 636 378**
Comprehensive income							
Profit (loss) for the year		-		-	-	(46 744)	(46 744)
Other comprehensive income (loss)	14	-	108	-	-	-	108
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(229 030)	-	-	229 030	-
Total comprehensive income		**-**	**(228 922)**	**-**	**-**	**182 286**	**(46 636)**
Dividends relating to 2010	26	-	-	-	-	(60 998)	(60 998)
Total transactions with owners		**-**	**-**	**-**	**-**	**(60 998)**	**(60 998)**
Balance at 31 December 2011		**603 945**	**1 803 976**	**60 394**	**-**	**1 060 429**	**3 528 744**

Statement of cash flows

	Note	GROUP		COMPANY	
		2011	2010	2011	2010
Cash flows from operating activities					
Net (loss)/profit for the year		(61 381)	(62 374)	(46 744)	(61 938)
Adjustments for:					
– Income tax expense/(income)		(12 191)	(12 511)	(9 897)	(12 772)
– Depreciation and amortisation	4, 5	433 824	452 332	423 289	447 834
– Impairment of property, plant and equipment	4	(245)	363	(245)	362
– Revaluation of property, plant and equipment	4	8 753	23 297	15	24 326
– Impairment of investment property	6	15 989	-	-	-
– Amortisation of grants	16	(2 283)	(1 988)	(2 283)	(1 988)
– Gain/(loss) on disposal and write-off of property, plant and equipment		15 016	11 450	15 179	10 891
– Decrease in value of investments in subsidiaries	32	-	-	-	(652)
– (Profit)/loss on investments in associates	31	(264)	1 269	-	-
– Change in the value of associates	31	(2 237)	(326)	-	-
– Dividend income		-	-	-	(710)
– Finance (income)	23	(3 572)	(7 643)	(3 602)	(7 643)
– Finance costs	23	10 350	10 776	10 331	10 746
Changes in working capital:					
– Trade and other receivables		6 108	(19 055)	7 969	(16 473)
– Inventories, prepayments, deferred charges and accrued income		3 151	(592)	2 946	(619)
– Trade and other payables, advance amounts received, accrued charges and deferred income		(33 281)	24 043	(32 095)	21 738
Cash generated from operations		**377 737**	**419 041**	**364 863**	**413 102**
– Income tax paid		(3 175)	(38 258)	(3 160)	(38 258)
Net cash generated from operating activities		**374 562**	**380 783**	**361 703**	**374 844**
Cash flows from investing activities					
– Purchase of property, plant and equipment and intangible assets		(309 084)	(229 532)	(305 103)	(227 604)
– Proceeds from sale of property, plant and equipment		1 099	1 960	18	1 299
– Loan repayments received		335	8 360	335	8 360
– Term deposits		500	42 000	5 500	42 000
– Dividends received		-	-	-	710
– Interest received		3 894	7 643	3 920	7 643
– Acquisition of associates	31	-	(3 900)	-	(3 900)
– Contribution to share capital of subsidiary	32	-	-	-	(2 189)
– Proceeds on assets exchange transaction	33	-	288	-	-
– Loss of control over subsidiaries		-	(22)	-	-
Net cash used in investing activities		**(303 256)**	**(173 203)**	**(295 330)**	**(173 681)**
Cash flows from financing activities					
– Proceeds from borrowings		230 302	-	230 302	-
– Repayments of borrowings		(298 098)	(127 298)	(298 098)	(127 298)
– Dividends paid to the Company's shareholders		(46 896)	(27 729)	(46 896)	(27 729)
– Interest paid		(10 137)	(10 109)	(10 262)	(10 082)
– Non-controlling interests' contribution to share capital of subsidiary		-	350	-	-
Net cash used in financing activities		**(124 829)**	**(164 786)**	**(124 954)**	**(165 109)**
(Decrease) in cash and cash equivalents		(53 523)	42 794	(58 581)	36 054
Cash and cash equivalents at beginning of year	12	111 369	68 575	101 880	65 826
Cash and cash equivalents at end of the year	12	**57 846**	**111 369**	**43 299**	**101 880**

The notes on pages 9 to 44 are an integral part of these financial statements.

Notes to the financial statements

1. General information

Information about the Company

LESTO AB (hereinafter "the Company") is a public limited liability company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities on 27 December 2010. The Company started its activities with effect from 1 January 2011. The shares of the Company have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange since 17 January 2011. The address of its registered office is:

Žvejų g. 14,
LT-09310 Vilnius,
Lithuania.

The Company was established following the reorganisation of Rytų Skirstomieji Tinklai AB (RST) and VST AB (VST) by way of merger. Under the terms and conditions of the reorganisation approved by the decisions of the extraordinary general meetings of shareholders of RST and VST dated 13 December 2010, a transfer-acceptance statement was signed on 31 December 2010, on the basis of which the Company took over all the assets, rights and obligations of RST and VST. The moment of the take-over of assets, rights and obligations by the Company was 1 January 2011, 00:00 am.

The core business of the Company includes electric power supply and distribution. The Company, which operates a medium and low voltage electricity distribution network, is a sole provider of electricity distribution service to the consumers in the entire territory of Lithuania.

By the decision of the National Control Commission for Prices and Energy, dated 29 October 2010, the following price caps were set for 2011–2013 on electricity distribution services provided by the Company:
- ✓ via medium voltage network – 4.89 ct/kWh;
- ✓ via low voltage network – 6.39 ct/kWh.

By the decision of the National Control Commission for Prices and Energy, dated 5 November 2010, the price cap of 0.37 ct/kWh was set for 2011–2013 on public electricity supply services provided by the Company.

On 25 November 2011, the National Control Commission for Prices and Energy announced prices and tariffs for electricity transmission services and public electricity, as well as the procedure of their application in 2012. With effect from 2012, the public electricity prices for private customers will increase on average by approx. 1.4 ct/kWh (VAT incl.). With effect from 2012, the transmission service prices for business customers who receive electric power via medium voltage network will increase by 1.1 ct/kWh (8%), and by 0.7 ct/kWh (3%) for business customers who receive electric power via low voltage network.

The Company's activities are regulated by the Lithuanian Law on Energy, Lithuanian Law on Electricity and other regulatory legislation.

Activities of the Company and the Group are not significantly affected by seasonal fluctuations.

The shareholders of the Company were as follows:

	At 31 December 2011		At 31 December 2010	
	Number of shares held	**Ownership interest, %**	**Number of shares held**	**Ownership interest, %**
Visagino Atominė Elektrinė UAB	499 026 209	82.63 %	499 026 209	82.63 %
E.ON Ruhrgas International AG (Germany)	71 040 473	11.76 %	71 040 473	11.76 %
Other shareholders	33 877 911	5.61 %	33 877 911	5.61 %
Total	603 944 593	100 %	603 944 593	100 %

As at 31 December 2011, Visagino Atominė Elektrinė UAB was the parent of the Company. Visagino Atominė Elektrinė UAB is wholly-owned by the Lithuanian Government (ultimate controlling party).

All shares of the Company with the nominal value of LTL 1 each are ordinary shares and they were fully paid as at 31 December 2011 and 2010. The Company does not hold any shares other than those mentioned above, and its Articles of Association do not provide for any restrictions on shares or special control rights of shareholders. The Company and its subsidiaries do not hold own shares.

The consolidated group

The consolidated group (hereinafter "the Group") consists of the Company, its subsidiaries and associates. The subsidiaries and associates are listed below.

Subsidiary or associate	Country	Year of acquisition	The Group's ownership interest (%) At 31 December 2011	The Group's ownership interest (%) At 31 December 2010	Profile of activities
Elektros Tinklo Paslaugos UAB	Lithuania	2004	71.13 %	71.13 %	Power network engineering, construction, repair, maintenance and customer connection to the grid services
NT Valdos UAB (named Kruonio Investicijos UAB until 28 October 2010)	Lithuania	2010	57.93 %	57.93 %	Real estate management services
Rytra UAB (wholly-owned by NT Valdos UAB)	Lithuania	2004	-	57.93 %	Transportation services
Technologijų ir Inovacijų Centras UAB	Lithuania	2010	24.94 %	43.03 %	IT and communication services
Public Institution Centre of Training for Energy Specialists (wholly-owned by Technologijų ir Inovacijų Centras UAB)	Lithuania	2010	24.94 %	43.03 %	Training services
Data Logistics Center UAB (wholly-owned by Technologijų ir Inovacijų Centras UAB since 28 December 2011)	Lithuania	2011	24.94 %	-	Telecommunication services
Tetas UAB	Lithuania	2005	38.87 %	38.87 %	Power network engineering, construction, repair, maintenance and customer connection to the grid services
Energetikos Pajėgos UAB (wholly-owned by Tetas UAB; merged with Tetas UAB on 1 April 2011)	Lithuania	2010	-	38.87 %	Preparation of energy projects, technical maintenance of construction works

Following the completion of reorganisation on 12 December 2011, NT Valdos UAB took over all the rights, obligations and assets of RYTRA UAB. RYTRA UAB ceased its activities as a separate legal entity and was removed from the Register of Legal Entities. With effect from 12 December 2011, all the rights, obligations and assets of RYTRA UAB have been transferred to NT Valdos UAB.

On 28 December 2011, all 32,163,004 newly issued ordinary registered shares of Technologijų ir Inovacijų Centras UAB with par value of LTL 1 each were acquired by Lietuvos Energija AB (a company belonging to Visagino Atominė Elektrinė group). Based on the Agreement for the Subscription of Shares, the payments for the shares was made by in-kind contribution. Lietuvos Energija AB disposed of 12 847 295 ordinary registered intangible shares of Data Logistics Center UAB with par value of LTL 1 each, which made up 100% of the latter company's authorised share capital. As a result of this transaction, the Company's ownership interest in Technologijų ir Inovacijų Centras UAB decreased from 43.03% to 24.94%.

As at 31 December 2011, the Group and the Company had 3 564 and 2 890 employees, respectively (31 December 2010: 3 691 and 2 985, respectively).

Approval of financial statements

The Company's management approved these financial statements on 27 March 2012. The Company's shareholders have a statutory right to approve or reject these financial statements and require from management to prepare a new set of financial statements.

2. Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment stated at revalued amount and investment property stated at fair value.

All amounts in these financial statements are presented in the litas and they have been rounded to the nearest thousand (in thousand LTL), unless otherwise stated.

The Company's and the Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (ES).

(a) New standards, amendments and interpretations to existing standards effective in 2011 and relevant to the Group and the Company

IAS 24, 'Related party disclosures' (amended in November 2009; effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

The Company/Group adopted this standard for the financial period beginning on 1 January 2011. The standard was applied retrospectively. The amended standard does not require government-related entities to disclose transactions and balances arising from these transactions, including off-balance sheet liabilities, conducted with the government or government-related companies. The adoption of the standard had no significant impact on the disclosure of transactions with related parties and balances arising from these transactions in the 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 2011). Improvements did not have a significant impact on the Company's/Group's financial statements.

(b) New or revised standards effective in 2011 but not relevant to the Group and the Company

Classification of rights issues – Amendment to IAS 32, 'Financial instruments: Presentation'.

Prepayments of a minimum funding requirement – Amendment to IFRIC 14.

IFRIC 19, Extinguishing financial liabilities with equity instruments.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1.

(c) New or revised standards and interpretations that are mandatory for the Group's and Company's accounting periods beginning on or after 1 January 2012 and which the Group and Company have not early adopted

IFRS 9, 'Financial instruments' (issued in November 2009; effective for annual periods beginning on or after 1 January 2013, with earlier application permitted; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Company/Group does not expect the standard to have a significant impact on the financial statements.

IFRS 10, 'Consolidated financial statements' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard replaces all of the guidance on control and consolidation in IAS 27 'Consolidated and separate financial statements' and SIC-12 'Consolidation – special purpose entities'. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Company/Group does not expect the standard to have a significant impact on the financial statements.

IFRS 11, 'Joint arrangements' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard replaces IAS 31 'Interests in joint ventures" and SIC-13 'Jointly controlled entities – non-monetary contributions by ventures'. Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Company/Group does not expect the standard to have a significant impact on the financial statements..

IFRS 12, 'Disclosure of interests in other entities' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 'Investments in associates'. IFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Company and the Group are currently assessing the impact of this standard on the financial statements.

IFRS 13, 'Fair value measurement' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Company/Group does not expect the standard to have a significant impact on the financial statements.

IAS 19 (revised 2011), 'Employee benefits' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The Company/Group does not expect the standard to have a significant impact on the financial statements.

IAS 27 (revised 2011), 'Separate financial statements' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The Company and the Group are currently assessing the impact of this standard on the financial statements.

IAS 28 (revised 2011), 'Investments in associates and joint ventures' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The Company and the Group are currently assessing the impact of this standard on the financial statements.

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). The Company/Group does not expect the amendments to have a significant impact on the financial statements.

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). The Company/Group does not expect the amendment to have a significant impact on the financial statements.

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). The amendment will not have any impact on the Company's/Group's financial statements.

Presentation of items of other comprehensive income – Amendment to IAS 1 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU). The Company/Group does not expect the amendment to have a significant impact on the financial statements.

Offsetting financial assets and financial liabilities - Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014). The Company/Group does not expect the amendment to have a significant impact on the financial statements.

2.2. Consolidation

a) Subsidiaries

The consolidated financial statements of the Group include the Company and its subsidiaries and associates. The financial statements of the subsidiaries and associates have been prepared for the same reporting periods, using uniform accounting policies.

Subsidiaries are consolidated from the date from which effective control is transferred to the Company. They are de-consolidated from the date that control ceases.

All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies are eliminated.

b) Business combinations between jointly controlled entities

Business combinations between jointly controlled entities are accounted for using the predecessor accounting. The difference between the consideration paid or the carrying amount of net assets transferred and the consideration received or the carrying amount of net assets acquired is recorded directly in other comprehensive income in the transferor's financial statements.
Upon combination of entities, i. e. when neither of the entities in business combination gains control over the other entity, the assets and liabilities, income and expenses of such entities are combined for all reporting periods presented in the financial statements.

c) Associates

An associate is an entity over which the Group has significant influence but no control. Significant influence generally accompanies a shareholding of between 20% to 50% of the voting rights. Investments in associates are recognised using the equity method and initially stated at cost. The Group's investment in associate includes goodwill (less accumulated impairment loss, if any) which is determined on the date of acquisition.

The Group's share of the post-acquisition net profit or loss is recognised in the statement of comprehensive income, and the Group's share of the post-acquisition other comprehensive income is recognised in other comprehensive income. By these amounts the carrying amount of investments in associates is adjusted.
When the group's share of losses in associate equals or exceeds the acquisition cost of investment in associate (which includes any unguaranteed amounts receivable), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gain on transactions between the Group and its associates is eliminated to the extent of the Group's interest in the associate. Unrealised loss is also eliminated, unless it provides evidence of an impairment of assets transferred. The accounting policies of associates were amended to ensure their compliance with the Group's accounting policies.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.
The Group and the Company have a single operating segment, i. e. sales and distribution of electric power. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS.

2.4. Currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Items in the consolidated financial statements are presented in the litas, which is the functional currency of the Company.

With effect from 2 February 2002, Lithuanian litas has been pegged to the euro at the rate of 3.4528 litas to 1 euro.

(b) Transactions and balances

Foreign currency transactions are accounted for using the exchange rates prevailing at the dates of transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the statement of comprehensive income of the reporting period.

2.5. 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 or by the Company's management, 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 recognised in other comprehensive income and credited to revaluation reserve directly in equity. Decreases in the carrying amount arising on the subsequent revaluation of property, plant and equipment that offset previous increases of the same asset are recognised in other comprehensive income and charged against revaluation reserve previously recognised directly in equity; all other decreases are charged to the profit and loss account in the statement of comprehensive income. Increases in the carrying amount that offset previous decreases are taken to the profit and loss account in the statement of comprehensive income. All other increases in the carrying amount arising on revaluations of property, plant and equipment are recognised in other comprehensive income and credited to revaluation reserve directly in equity. Each year the difference between depreciation based on the revalued 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.

Depreciation of property, plant and equipment is calculated using the straight-line method to write off the revalued amount of asset to its residual value over the following estimated useful lives:

Administrative buildings (Group)	60 years
Buildings	15 - 50 years
Whereof:	
Engineering constructions	50 years
35 - 110 kV transformer substation constructions	35 years
6-10 kV electricity distribution constructions	35 years
10/0.4 kV transformer constructions	35 years
Communication and operation system constructions	15-25 years
Structures and machinery and electricity networks	5 - 50 years
Whereof:	
35 - 110 kV transformer substation equipment (excl. constructions)	30 years
6-10 kV distribution equipment (excl. constructions)	30 years
10/0.4 kV capacity transformers	30 years
35 kV cables and lines	45 years
0.4 - 10 kV cables and lines	15 - 40 years
35-110 kV capacity transformers	40 years
Communication and operation system equipment (excl. constructions)	5 - 45 years
Hydrotechnical equipment and structures	50 years
Other property, plant and equipment	3 - 50 years

The residual values and useful lives of property, plant and equipment are reviewed regularly and adjusted, if appropriate.

When assets are written off or otherwise disposed, its acquisition cost and related depreciation charges are no longer recognised in the financial statements, and gain or loss on such disposal is recognised in the statement of comprehensive income. Gain or loss on disposal of property, plant and equipment is determined as the difference between proceeds received and the book value of assets transferred. Upon disposal of revalued asset, the corresponding amount is transferred from revaluation reserve to retained earnings (deficit).

Construction in progress is reclassified to corresponding categories of property, plant and equipment when it is completed and ready for the intended use.

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 charged to the statement of comprehensive income during the financial period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time (longer than 1 year) to get ready for their intended use, are added to the cost of those assets.

2.6. Investment property

Investment property includes the Company's and the Group's buildings and constructions held for rental yields or for capital appreciation. Investment property is initially recognised at acquisition cost and subsequently remeasured at fair value, with no depreciation charged thereon. Gain or loss arising on changes in the fair value of investment property is recognised in the statement of comprehensive income for the reporting period.

Reclassifications to/from investment property can be made only when the purpose of the related asset changes. A part of immovable property may be occupied by the Company and the Group, whereas the part, which is not occupied, may be used to earn rental yields or for capital appreciation. When a part of immovable property occupied by the Company and the Group may be sold separately, such part of property is accounted for separately. The part of immovable property occupied by the Company and the Group is accounted for under IFRS 16 requirements, whereas the part of immovable property held for rental yields is accounted for under IAS 40 requirements.

2.7. Intangible assets

(a) Computer software

Software licences acquired are capitalised with reference to costs attributable to the acquisition and preparation for use of that software. These costs are amortised over the estimated useful life (3 years).

(b) Other intangible assets

Intangible assets expected to provide economic benefits to the Group and the Company in future periods are stated at acquisition cost, less any accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line method over estimated useful life of 3 to 4 years.

2.8. Impairment of non-financial assets

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9. Financial assets

Financial assets are classified by the Group and the Company as financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables, and available-for-sale financial assets. Regular purchases and sales of financial assets are recognised on the trade date. Financial assets are initially recognised at fair value plus transaction costs, except for the financial assets at fair value through profit or loss.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables are initially recognised at cost (the fair value of consideration) and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the these assets are derecognised, impaired or amortised

Impairment loss is recognised when there is objective evidence that the Group and the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the amount receivable is impaired. The carrying amount of the asset is reduced, and the amount of the loss is recognised in the income statement within ‘other expenses’. When an amount receivable is uncollectible, it is written off against the allowance account for amounts receivable. Subsequent recoveries of amounts previously written off are credited against ‘other expenses’ in the statement of comprehensive income.

2.10. Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group and the Company do not use hedging accounting, therefore, derivative financial instruments are recognised at fair value through profit or loss. Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income within ‘finance costs’.

2.11. Investments in subsidiaries and associates in the Company‘s separate financial statements

Investments in subsidiaries and associates in the Company’s separate financial statements are stated at cost less impairment loss.

2.12. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out (FIFO) basis. Acquisition cost of inventories includes purchase price and related taxes (other than those subsequently recovered by the Company and the Group from tax authorities), transportation, handling and other costs directly associated with acquisition of inventories. The acquisition cost excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

2.13. 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.

2.14. Term deposits

Term deposits are short-term (up to 1 year) highly liquid investments with maturities longer than 3 months. Term deposits are stated at amortised cost using the effective interest rate method.

2.15. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and other short-term highly liquid investments with maturities up to 3 months).

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 maturities up to 3 months, and bank overdrafts. In the statement of financial position bank overdrafts are included in current borrowings.

2.16. Trade payables

Trade payables are accrued when the other party has performed its obligations under the contract, and they are initially recognised at fair value and subsequently remeasured at amortised cost using the effective interest rate method.

2.17. Borrowings

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

Borrowings are classified as current liabilities unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 month after the balance sheet date.

Borrowing costs that are attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time (longer than 1 year) to get ready for its intended use, are capitalised as part of the cost of that asset. Other borrowing costs are recognised as expenses in the statement of comprehensive income during the period when they are incurred.

2.18. Income tax

Income tax expense for the period comprises current tax and deferred tax.

a) Income tax

Current income tax assets and liabilities are recognised to the extent their recovery from or payment to tax authorities is probable. Income tax is determined using the tax rates (and laws) that have been enacted by the date of the statements of financial position.

The basic income tax rate in Lithuania was 15% in 2011 (2010: 15%).

b) Deferred income tax

Deferred income tax is accounted for using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent it is probable that they will reduce the taxable profit in future. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from initial recognition of goodwill (or negative goodwill); or if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are reviewed at each date of the statement of financial position and if it is not probable that the Group and the Company will generate sufficient taxable profit to realise these assets, they are reduced to an amount which is likely to reduce the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realised or settled.

Deferred tax assets and liabilities are offset only where they relate to income tax assessed by the same fiscal authority or where there is a right to offset current tax assets and current tax liabilities.

c) Current income tax and deferred income tax

Current income tax and deferred income tax expense (income) is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the deferred tax is also recognised directly in equity.

2.19. Employee benefits

a) Social security contributions

The Group and the Company 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 plan is a plan under which the Group and the Company pay 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 are included within payroll expenses. The social insurance contributions are paid by the Company at a rate of 30.98 per cent.

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 Group and the Company recognise termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan and agreements signed with employees without possibility of withdrawal or providing 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 recognised at present value discounted using market interest rate.

c) Pension benefits to employees of retirement age

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws. A liability for such pension benefits is recognised in the statement of comprehensive income and it reflects the present value of these benefits at the date of the statement of financial position. The aforementioned non-current liability for pension benefits to employees at the date of the statement of financial position is determined with reference to actuary valuations using the projected relative unit method. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which the benefits will be paid to employees and that have maturity term similar to that of the related liability.

2.20. Grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group and the Company will comply with all attached conditions. Government subsidies relating to purchase of property, plant and equipment are included in non-current liabilities in the statement of financial position and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

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

2.21. Operating lease

(a) Operating lease – where the Company and the Group are lessees

Leases of property, plant and equipment where a significant portion of risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(b) Operating lease – where the Company and the Group are lessors

Lease is recognised as operating lease, when all the risks and rewards of ownership of the leased item remain with the lessor. Operating lease payments are recognised as revenue in the statement of comprehensive income on a straight-line basis over the lease term.

2.22. 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.

2.23. Revenue recognition

Revenue of the Company and the Group comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts, and the Group's sales (after eliminating intercompany sales within the Group).

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and the Company and when specific criteria have been met for each of the Company's and the Group's activities, as described below.

(a) Revenue from sale of electricity

Revenue from sale of electricity to private customers is recognised upon supply of electricity. An estimate of unbilled revenue is made to record electricity supplied, but not yet paid at the end of each reporting period. Unbilled revenue is estimated as 1/3 of payments for electricity received in December. Such estimate is based on the Company's historical experience and average term of settlement for electricity supplied to private customers.
Revenue from sale of electricity to business customers is recognised upon sale of electricity based on the actual usage of electricity which is determined according to the readings of electricity meters.

(b) Revenue from connection of new customers

Fees for the connection of new customers, producers, and for the dislocation and reconstruction of electricity network objects or facilities on request of the customer, producer or other entity, which were received before 1 July 2009, are recognised as revenue upon connection.

The above-mentioned fees received before 1 July 2009 were initially recognised as deferred income and subsequently recognised as income on a proportionate basis over the useful life of the related property, plant and equipment. The related costs comprising the acquisition cost of property, plant and equipment and other costs have been capitalised and depreciated over the estimated useful life of the assets capitalised.

(c) Revenue from sale of services

Revenue from sale of services is recognised during the period in which the services have been rendered with reference to the stage of completion of the specific transaction which is determined as a percentage of services actually rendered as compared to the total services to be rendered.

(d) Revenue from sale of goods

Revenue from sale of goods is recognised when all the risks relating to loss of or damage to goods and all other incremental costs arising as a result of events occurring after the goods have been delivered to the agreed place, have been transferred by the Group to the Company's buyer in accordance with the standard sale terms and conditions (INCOTERMS) agreed with the buyer, and the collection of the related receivable amounts is certain.

(e) Interest income

Interest income is recognised on accrual basis (using the effective interest rate method). Interest received is recorded in the statement of comprehensive income as finance income.

(f) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.24. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.25. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary registered shares in issue during the period. Where the number of shares changes without causing a change in the economic resources, the weighted average number of ordinary registered shares is adjusted in proportion to the change in the number of shares as if such change happened at the beginning of the previous reporting period presented.

2.26. Contingencies

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

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

2.27. Events after the end of the reporting period

All subsequent events after the end of the reporting period (adjusting events) are accounted for in the financial statements if they relate to the reporting period and have significant impact on the financial statements.
All subsequent events that are significant but not adjusting events are disclosed in notes to the financial statements.

2.28. Offsetting

For the purpose of the financial statements, assets and liabilities, income and expenses are not offset, except for the cases when such offsetting is required in the specific standard.

3. Critical accounting estimates

Accounting estimates and judgements are regularly reviewed and evaluated with reference to past experience and other factors, such as the likelihood of future events, which is deemed to be reasonable under certain circumstances.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and contingencies. The main areas where accounting estimates were used when preparing these financial statements are described below:

(a) Revaluation and impairment of property, plant and equipment

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'. The fair value of the majority items of property, plant and equipment due to their specific nature was measured using a depreciated replacement cost approach at 31 December 2008.

If the value of assets is measured based on a depreciated replacement cost method, International Valuation Standards require that an adequate profitability test should be performed. Accounting standards require a periodical review of property, plant and equipment for impairment. When the carrying amount of property, plant and equipment recorded in the statement of financial position is higher than its value in use or fair value, less selling expenses, the carrying amount of property, plant and equipment should be reduced. In other words, the carrying amount of property, plant and equipment recorded in the statement of financial position should be written down to higher of the two indicators: value of future benefits of assets expected from their use and value of proceeds expected to be received from immediate disposal of assets.

The previous version of the Lithuanian Law on Electricity effective as at 31 December 2008 stipulated that the price caps for electricity transmission services were determined based on the value of assets used in the licensed activities of the service provider established with reference to data reported in the service provider's financial statements (Regulated Assets Base).

According to the amendment to the Law effective from 1 June 2009, the price caps for electricity transmission services are to be determined based on the value of assets used in the licensed activities of the service provider established and approved by the National Control Commission for Prices and Energy (the Commission) in accordance with the Procedure for the determination of the value of assets used in the licensed activities of the service provider drafted by the Commission and approved by the Government.

According to the Resolution of the Government of the Republic of Lithuania (9 September 2009, No. 1142) On the Procedure for the Determination of the Value of Assets Used in the Licensed Activities of the Electricity Service Provider, when determining the price caps for electricity transmission services, the value of assets used in the licensed activities of the service provider is equal to the net book value (carrying amount) of property, plant and equipment as at 31 December 2002 as increased by the amount of investments accomplished and agreed with the Commission and reduced by the depreciation amount calculated pursuant to the procedure stipulated in the Lithuanian Law on Income Tax.

Due to the reasons specified above, the values of property, plant and equipment reported in these financial statements may significantly differ from those that would be determined if the valuation of assets were performed by external independent valuers as required by International Valuation and Accounting Standards. It is probable that such valuation would have a negative impact on the results of the Group's and the Company's operations and on the shareholders' equity reported in the financial statements for the years 2010 and 2011.

Based on the decision of the Company's management, valuation of the fair values of property, plant and equipment was not performed by external independent valuers as at 31 December 2010 and 2011 because significant reforms took place in the whole energy sector in 2010 and 2011.

(b) Deferral of customer connection fees

Before 1 July 2009, the Company used to defer revenue received for the connection of new customers to the electricity network and recognise it as income over the period of 31 years, which is the average useful life of electricity equipment constructed by the Group and the Company for the purposes of connecting new customers. The Company is the only provider of electricity distribution service to the customers in the whole territory of Lithuania, therefore, management believes that the period of rendering services to customers is unlimited. As a result, the average useful life of electricity equipment constructed by the Group or the Company for customer connection was used as the best estimate of the period over which connection fees paid customers are recognised as income. For further details, see Note 15. With effect from 1 July 2009, connection fees received from customers are recognised as income upon the connection of customers.

(c) Accrued income

Revenue received from private customers is recognised based on the payments received, therefore at the end of each reporting period the amount of the revenue earned but not yet paid by private customers is estimated and accrued by the management. The management has estimated that the majority of private customers declare and make payment for the electricity used on approx. 20th day of the month, while electricity is supplied for a full month (30 or 31 days). Consequently, the volume of electricity used over the remaining 10 days is proportionally estimated based on total volume of electricity used by private customers during December and multiplied by the average rate per 1 kWh (Note 10).

(d) Provision for impairment of accounts receivable

Impairment loss of accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the management could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable. For further details, see Note 9.

(e) Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and physical wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group and the Company. The following key factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

(f) 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 management is not aware of any circumstances that might result in a potential material liability in this respect.

(g) Overdeclared electricity

With effect from the beginning of 2012, the Company increased the prices for electricity. As a result, a part of private customers declared higher usage of electricity than their actual usage for the purpose of paying a lower price. The Company estimated the overdeclared amount based on the change in usage of electricity that was calculated as the difference between electricity received to the network during the restated period and electricity received to the network during the same period last year, compared it with payments received from private customers and accounted for this difference as advance amounts received (Note 18.)

4. Property, plant and equipment

Group	Note	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construction in progress	Total
At 31 December 2009								
Cost or revalued amount		514	437 671	4 574 982	81 789	117 449	70 475	5 282 880
Accumulated depreciation		-	-	(11 304)	(30 233)	(2 646)	-	(44 183)
Net book amount at 1 January 2010		514	437 671	4 563 678	51 556	114 803	70 475	5 238 697
Additions		5	2 689	38 418	3 040	4 497	220 927	269 576
Contributions of non-controlling interests to the share capital of subsidiaries	32	-	17 991	12 163	2 183	1 636	-	33 973
Revaluation		19	(25 393)	2 272	2 448	2 026	(3 164)	(21 792)
Disposals		-	(1 699)	(1 721)	(790)	(56)	-	(4 266)
Write-offs		(79)	(115)	(8 854)	(109)	(139)	(452)	(9 748)
Change in impairment		-	-	-	3	132	228	363
In-kind contributions to the share capital of associates	31	-	-	-	-	(13 724)	-	(13 724)
Reclassifications between groups, transferred to intangible assets		-	8 510	198 131	234	8 364	(217 095)	(1 856)
Transferred from assets held for		-	2	-	-	-	-	2
Transferred to investment property	6	-	(28 930)	(53)	-	-	-	(28 983)
Disposal of subsidiaries	32	-	(852)	683	(279)	(98)	-	(546)
Depreciation charge		-	(24 561)	(391 620)	(9 033)	(25 499)	-	(450 713)
Net book amount at 31 December 2010		459	385 313	4 413 097	49 253	91 942	70 919	5 010 983
At 31 December 2010								
Cost or revalued amount		459	405 127	4 813 878	51 714	114 483	70 919	5 456 580
Accumulated depreciation		-	(19 814)	(400 781)	(2 461)	(22 541)	-	(445 597)
Net book amount at 1 January 2011		459	385 313	4 413 097	49 253	91 942	70 919	5 010 983
Additions		-	280	3 880	3 511	6 323	285 309	299 303
Assets recognised as a result of physical stock-count		-	-	1 303	-	-	-	1 303
Disposals		-	(188)	(26)	(678)	(21)	-	(913)
Write-offs		-	(64)	(13 407)	(8)	(30)	(469)	(13 978)
Revaluation		-	(213)	(2 069)	(2 119)	(2)	(2 345)	(6 748)
Change in impairment		-	(73)	(132)	-	195	255	245
Reclassifications between groups, transferred to intangible assets and inventories		(6)	5 972	277 397	-	3 720	(292 623)	(5 540)
Reclassifications to investment property	6	-	(7 794)	(21 106)	-	-		(28 900)
Depreciation charge		-	(22 376)	(382 859)	(6 644)	(19 907)	-	(431 785)
Net book amount at 31 December 2011		453	360 856	4 276 079	43 316	82 220	61 046	4 823 970
At 31 December 2011								
Cost or revalued amount		453	404 243	5 052 711	70 297	124 856	61 046	5 713 607
Accumulated depreciation		-	(43 387)	(776 632)	(26 981)	(42 635)	-	(889 636)
		453	360 856	4 276 079	43 316	82 220	61 046	4 823 970

Company	Note	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construction in progress	Total
At 31 December 2009								
Cost or revalued amount		514	425 471	4 572 611	47 323	116 808	70 430	5 233 157
Accumulated depreciation		-	-	(11 304)	(10 387)	(2 646)	-	(24 337)
Net book amount at 1 January 2010		514	425 471	4 561 307	36 936	114 162	70 430	5 208 820
Additions		6	2 670	35 635	7	4 198	219 665	262 181
Revaluation		19	(27 042)	2 272	2 449	2 026	(3 164)	(23 440)
Disposals		-	(1 212)	(154)	(446)	(26)	-	(1 838)
Write-offs		(79)	(116)	(8 854)	(109)	(138)	(452)	(9 748)
Change in impairment		-	(1)	-	3	132	228	362
Reclassification between groups, transferred to intangible assets and inventories		-	7 077	202 496	-	8 780	(217 095)	1 258
sale		-	2	-	-	-	-	2
In-kind contributions to the share capital of associates and subsidiaries	31,32	(181)	(103 203)	(15 501)	(31 811)	(15 513)	(1 211)	(167 420)
Depreciation charge		-	(23 923)	(390 287)	(6 754)	(25 251)	-	(446 215)
Net book amount at 31 December 2010		279	279 723	4 386 914	275	88 370	68 401	4 823 962
At 31 December 2010								
Cost or revalued amount		279	299 480	4 782 826	526	110 092	68 401	5 261 604
Accumulated depreciation		-	(19 757)	(399 022)	(251)	(21 722)	-	(440 752)
Net book amount at 1 January 2011		279	279 723	4 383 804	275	88 370	68 401	4 820 852
Additions		-	247	3 763	13	6 183	284 051	294 257
Assets recognised as a result of physical stock-count		-	-	1 303	-	-	-	1 303
Revaluation		-	(7)	115	6	(2)	-	112
Disposals		-	-	(26)	-	-	-	(26)
Write-offs		-	(64)	(13 409)	-	(11)	(469)	(13 953)
Change in impairment		-	(73)	(132)	-	195	255	245
Reclassification between groups, transferred to intangible assets and inventories		(6)	5 987	277 172	-	3 720	(292 401)	(5 528)
Depreciation charge		-	(20 230)	(381 725)	(50)	(19 247)	-	(421 252)
Net book amount at 31 December 2011		273	265 583	4 270 865	244	79 208	59 837	4 676 010
At 31 December 2011								
Cost or revalued amount		273	305 515	5 043 977	390	119 212	59 837	5 529 204
Accumulated depreciation		-	(39 932)	(773 112)	(146)	(40 004)	-	(853 194)
		273	265 583	4 270 865	244	79 208	59 837	4 676 010

A significant increase in the number of new connections to the distribution network as well as a higher number of reconstructions of 110-35 kV and 10-0.4 kV electricity lines resulted in the increase in construction in progress.

Write-offs mainly represent write-offs of structures and electricity network equipment which had been damaged or replaced during the reconstruction (repair).

Revaluation of property plant and equipment at 31 December 2010

In 2010, revaluation was performed with respect to the Group's and the Company's property, plant and equipment that were transferred as an in-kind contribution in October 2010 to the authorised share capital of associate Technologijų ir Inovacijų Centras UAB and subsidiary Kruonio Investicijos UAB (renamed to NT Valdos UAB on 28 October 2010). The revaluation was performed by independent property valuer Re&Solution Valuations UAB.

For the purpose of the Group's financial statements, buildings owned by subsidiary Elektros Tinklo Pajėgos UAB were revaluated. Buildings were revaluated with reference to the assets' fair values which were determined by independent property valuer Kovertas UAB using the comparative market prices method.

Other items of property, plant and equipment were not revaluated in 2010.

The summary of gain/loss on revaluation in 2010 is presented below:

Group	Recognised in other comprehensive income and revaluation reserve	Recognised in the statement of comprehensive income	Total revaluation loss
Increase (decrease) in carrying amount	1 505	(23 297)	(21 792)
Company			
Increase (decrease) in carrying amount	886	(24 326)	(23 440)

Revaluation of property plant and equipment as at 31 December 2011

As at 31 December 2011, revaluation was carried out in respect of a part of property, plant and equipment which was transferred by the Company as an in-kind contribution to its subsidiary Elektros Tinklo Paslaugos UAB. The valuation was conducted by the independent external valuers Inreal UAB based on the combination of replacement cost and comparable valuation methods.

On 12 December 2011, the Company's subsidiary NT Valdos UAB merged with the latter's subsidiary Rytra UAB. As at 31 December 2011, revaluation was carried out in respect of a part of property, plant and equipment of the Group. On 4 November 2011 independent external valuers Inreal UAB conducted valuation of immovable property of Rytra UAB using the comparable valuation method, and on 21 November 2011 Oberhaus UAB conducted valuation of motor vehicles. On 27 December 2011, valuation of immovable property of NT Valdos UAB was performed by the external valuer InReal UAB, and on 31 December 2011 the valuation was performed by valuation experts of NT Valdos UAB using the comparable valuation method, and on 21 November 2011 valuation of motor vehicles was performed by Oberhaus UAB.

The summary of gain/loss on revaluation in 2011 is presented below:

Group	Recognised in other comprehensive income and revaluation reserve	Recognised in the statement of comprehensive income	Total revaluation loss
Increase (decrease) in carrying amount	2 005	(8 753)	(6 748)
Company			
Increase (decrease) in carrying amount	127	(15)	112

If no revaluation had been carried out for property, plant and equipment, the net book values of the Group's and the Company's property, plant and equipment would have been as follows as at 31 December 2011 and 2010:

Group	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construc tion in progress	Total
At 31 December 2011	556	258 467	2 418 158	45 749	78 995	61 173	**2 863 098**
At 31 December 2010	459	200 890	2 315 740	46 430	85 665	70 920	**2 720 104**

Company	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construc tion in progress	Total
At 31 December 2011	376	163 924	2 408 207	552	75 983	59 963	**2 709 005**
At 31 December 2010	376	171 115	2 289 158	653	82 443	68 402	**2 612 147**

5. Intangible assets

Group	Note	Patents and licences	Computer software	Other intangible assets	Projects in progress	Total
At 31 December 2009						
Cost		-	31 761	370	-	32 131
Accumulated amortisation		-	(27 869)	(339)	-	(28 208)
Net book amount at 1 January 2010		-	3 892	31	-	3 923
Additions		-	3 225	-	-	3 225
Reclassification from PP&E		-	297	-	-	297
In-kind contributions to share capital of associates	31	-	(1 280)	-	-	(1 280)
Write-offs		-	(6)	-	-	(6)
Amortisation charge		-	(1 600)	(19)	-	(1 619)
Impairment and revaluation		-	331	-	-	331
Net book amount at 31 December 2010		-	4 859	12	-	4 871
At 31 December 2010						
Cost		-	20 450	106	-	20 556
Accumulated amortisation		-	(15 591)	(94)	-	(15 685)
Net book amount at 1 January 2011		-	4 859	12	-	4 871
Additions		-	730	20	392	1 142
Reclassification from PP&E		69	1 571	114	-	1 754
Amortisation charge		(2)	(2 027)	(10)	-	(2 039)
Net book amount at 31 December 2011		67	5 133	136	392	5 728
At 31 December 2011						
Cost		69	10 384	161	392	11 006
Accumulated amortisation		(2)	(5 251)	(25)	-	(5 278)
		67	5 133	136	392	5 728

Company		Patents and	Computer software	Other intangible	Projects in progress	Total
At 31 December 2009						
Cost		-	31 761	370	-	32 131
Accumulated amortisation		-	(27 869)	(339)	-	(28 208)
Net book amount at 1 January 2010		-	3 892	31	-	3 923
Additions		-	3 213	-	-	3 213
Reclassification from PP&E		-	297	-	-	297
In-kind contributions in associates	31	-	(1 280)	-	-	(1 280)
Write-offs		-	(6)	-	-	(6)
Amortisation charge		-	(1 600)	(19)	-	(1 619)
Impairment and revaluation		-	331	-	-	331
Net book amount at 31 December 2010		-	4 847	12	-	4 859
At 31 December 2010						
Cost		-	20 438	106	-	20 544
Accumulated amortisation		-	(15 591)	(94)	-	(15 685)
Net book amount at 1 January 2011		-	4 847	12	-	4 859
Additions		-	684	20	392	1 096
Reclassification from PP&E		69	1 571	114	-	1 754
Amortisation charge		(2)	(2 025)	(10)	-	(2 037)
Net book amount at 31 December 2011		67	5 077	136	392	5 672
At 31 December 2011						
Cost		69	10 326	161	392	10 948
Accumulated amortisation		(2)	(5 249)	(25)	-	(5 276)
		67	5 077	136	392	5 672

6. Investment property

The Group's investment property comprises buildings and structures of the subsidiary NT Valdos UAB, that is held for rental yields or for capital appreciation and is not used for Groups internal activities.

The summary of movement on investment property account is presented below:

Group	Investment property
At 1 January 2010	-
Non-controlling interests contributions to the share capital of subsidiari	93 694
Reclassification from property, plant and equipment	28 983
At 31 December 2010	122 677
At 1 January 2011	122 677
Decrease in fair value	(15 989)
Reclassification from property, plant and equipment	28 900
At 31 December 2011	135 588

On 27 December 2011, valuation of immovable property of NT Valdos UAB was performed by the external valuer InReal UAB, and on 31 December 2011 the valuation was performed by valuation experts of NT Valdos UAB using the comparable valuation method.

7. Non-current receivables

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Fair value of mortgage loans granted	3 209	3 931	3 209	3 931
Carrying amount of mortgage loans granted	2 707	2 867	2 707	2 867

Non-current receivables consist of mortgage loans which were granted to individuals for a period of 25 years. The mortgage loans are repayable in instalments till 2027. These loans are secured over residential housing property. In 2011, the current portion of these loans amounted to LTL 338 thousand (2010: LTL 350 thousand) and was accounted for under trade and other receivables (Note 9). These loans were issued at a fixed interest rate ranging from 0.1 to 1 per cent. Fair values of mortgage loans are presented below.

	Group		Company	
	2011 12 31	2010 12 31	2011 12 31	2010 12 31
Non-current portion of mortgage loans granted	2 369	2 517	2 369	2 517
Grants receivable	-	7 578		7 578
Total	2 369	10 095	2 369	10 095

Fair value of mortgage loans was estimated based on cash flows discounted at a rate of 4.66 per cent (31 December 2010: 4.8 per cent). The weighted average effective interest rate used by the Group and the Company for discounting of mortgage loans was 7.59 per cent as at 31 December 2011 (2010: 7.55 per cent).

8. Inventories

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Raw materials and spare parts	12 870	13 166	10 327	10 597
Electricity meters	3 013	3 374	3 013	3 374
Fuel	250	348	19	19
Other	3 150	1 477	2 911	1 325
Less: write-down of inventories	(4 879)	(4 498)	(4 453)	(4 194)
Total	14 404	13 867	11 817	11 121

The Group's and the Company's inventories recognised as expenses during the year amounted to LTL 53 710 thousand and LTL 20 814 thousand, respectively as at 31 December 2011 (31 December 2010: LTL 47 987 thousand and LTL 23 203 thousand, respectively). These expenses were included in repairs and maintenance expenses in the statement of comprehensive income.

Movement on inventory write-down account in 2011 and 2010 was as follows:

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Inventory write-down at 1 January 2011	4 498	4 479	4 194	4 308
Increase in inventory write-down during the year	2 972	578	2 850	406
Reversal of inventory write-down	(2 591)	(559)	(2 591)	(520)
Inventory write-down at 31 December 2011	4 879	4 498	4 453	4 194

An inventory write-down previously recognised in respect of certain inventories was revered as a result of write-off or utilisation of inventories.

9. Trade and other receivables

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Trade receivables	192 953	207 666	192 412	201 510
Trade and other receivables from related parties (Note 29)	21 074	11 993	16 146	9 433
Current portion of mortgage loans	338	350	338	350
Loans granted to related parties	-	13 980	-	13 980
Other receivables	10 290	12 097	9 981	17 684
Less: impairment of doubtful receivables	(40 427)	(43 852)	(40 399)	(43 794)
Total	184 228	202 234	178 478	199 163

The fair values of trade and other receivables approximate their carrying amounts.

Impairment provision for trade receivables is recognised when it is probable that the debtor will enter bankruptcy or the payment is overdue for more than 2 months.

The Group‘s and the Company‘s trade receivables not classified as doubtful were as follows:

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Not past due	158 206	162 227	152 765	153 700
Past due up to 1 month	14 294	6 152	14 294	6 045
Past due longer than 1 month	1 100	7 428	1 100	7 404
Total	173 600	175 807	168 159	167 149

For the ageing analysis of trade receivables from related parties refer to Note 29.

Trade receivables are non-interest bearing and are normally settled with the term of 25 to 35 days.

The ageing of the Group's and the Company's trade and other receivables that were provided for is as follows:

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Past due up to 3 months	1 642	6 207	1 642	6 196
Past due from 3 to 6 months	2 847	2 174	2 846	2 156
Past due from 6 to 12 months	1 821	4 172	1 821	4 171
Past due longer than 1 year	37 613	38 969	37 594	38 927
Total	43 923	51 522	43 903	51 450

Movements on the Group's provision for impairment of trade and other receivables in 2011 and 2010 were as follows:

Group	
Balance at 1 January 2010	42 124
Provision for impairment	4 158
Written off	(2 430)
Balance at 31 December 2010	43 852
Provision for impairment	2 145
Written off	(5 570)
Balance at 31 December 2011	40 427

Movements on the Group's provision for impairment of trade and other receivables in 2011 and 2010 were as follows:

Company	
Balance at 1 January 2010	42 063
Provision for impairment	4 162
Written off	(2 431)
Balance at 31 December 2010	43 794
Provision for impairment	2 148
Written off	(5 543)
Balance at 31 December 2011	40 399

10. Prepayments, deferred charges and accrued income

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Accrued revenue for electricity supplied	23 750	25 836	23 750	25 836
Prepayments for services	80	3 477	51	3 304
Other prepayments and deferred charges	400	690	120	515
	24 230	30 003	23 921	29 655

11. Derivative financial instruments

In order to manage interest rate risk, the Group and the Company use derivative financial instruments. To this end, the Company entered into interest rate swap agreements enabling it to convert floating interest flows into fixed.

As at 31 December 2011, the nominal value of interest rate swaps amounted to LTL 69 056 thousand (31 December 2010: LTL 69 056 thousand).

As at 31 December 2011 and 2010, the fair value of interest rate swaps comprised the liability of LTL 1 511 thousand and LTL 1 229 thousand, respectively.

12. Cash and cash equivalents and time deposits

Cash and cash equivalents

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Time deposits with maturity less than 3 months	1 500	117 941	-	117 941
Cash at bank	56 870	21 670	44 161	12 191
Cash in transit	338	10	-	-
	58 708	139 621	44 161	130 132

Based on the ratings of Moody's rating agency, the credit quality of cash and cash equivalents is as follows:

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Aa2	5 557	64 225	1 909	64 196
Aa3	426	227	426	227
A1	7 026	6 695	33	4 610
A2	45 361	61 472	41 793	58 657
No rating	338	7 002	-	2 442
	58 708	139 621	44 161	130 132

Cash and cash equivalents include the following for the purpose of the cash flow statement:

	Group		Company	
	31 Dec 2011	**31 Dec 2010**	**31 Dec 2011**	**31 Dec 2010**
Cash and cash equivalents	58 708	139 621	44 161	130 132
Overdraft (note 19)	(862)	(28 252)	(862)	(28 252)
	57 846	111 369	43 299	101 880

Time deposits

As at 31 December 2010, the average weighted interest rate for the deposits with the maturity less than 3 months was 1.31 per cent (as at 31 December 2010: the Company had no time deposits with maturity less than 3 months).

As at 31 December 2011, the Group had a short-term deposit at bank for the amount of LTL 5 000 thousand (31 December 2010: the Group and the Company had LTL 5 500 thousand) with maturity longer than 3 months.Average weighted interest rate for the deporit was 1.26 per cent (31 December 2010: 1.25 per cent).

13. Share capital

As at 31 December 2011, the Company's share capital was divided into 603 944 593 (2010: 603 944 593) ordinary registered shares with par value of LTL 1 each. All the shares are fully paid. The number of shares did not change during 2011 and 2010.

14. Reserves

Legal reserve
A 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. As at 31 December 2011 and 2010, the legal reserve was fully established.

Revaluation reserve
Revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. In accordance with the Lithuanian legislation the Company can use revaluation reserve to increase its share capital. However, this reserve cannot be used to cover losses.

Group		**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 1 January 2010		**2 694 322**	**(404 147)**	**2 290 175**
Gains (losses) on revaluation of property, plant and equipment during the year	4	1 505	829	2 334
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(261 666)	38 139	(223 527)
Change in revaluation reserve arising on assets exchange transaction	33	(32)	7	(25)
Disposal of subsidiaries		(809)		(809)
Non-controlling interests' share of reserve of subsidiaries		(171)	26	(145)
Balance at 31 December 2010		**2 433 149**	**(365 146)**	**2 068 003**
Balance at 1 January 2010		**2 433 149**	**(365 146)**	**2 068 003**
Gains (losses) on revaluation of property, plant and equipment during the year	4	2 005	(301)	1 704
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(272 408)	40 433	(231 975)
Non-controlling interests' share of reserve of subsidiaries		(790)	118	(672)
Balance at 31 December 2011		**2 161 956**	**(324 896)**	**1 837 060**

Group		Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 1 January 2010		**2 687 706**	**(403 148)**	**2 284 558**
Gains (losses) on revaluation of property, plant and equipment during the year	4	886	922	1 808
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(296 913)	43 445	(253 468)
Balance at 31 December 2010		**2 391 679**	**(358 781)**	**2 032 898**
				-
Balance at 1 January 2011		**2 391 679**	**(358 781)**	**2 032 898**
Gains (losses) on revaluation of property, plant and equipment during the year	4	127	(19)	108
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(269 447)	40 417	(229 030)
Balance at 31 December 2011		**2 122 359**	**(318 383)**	**1 803 976**

Other reserves

Other reserves are formed based on the decision of shareholders and can be redistributed on the distribution of the next year's profit.

15. Deferred income

	Group/Company	
	2011 12 31	**2010 12 31**
Deferred income from customer connection fees	332 890	347 919
Deferred income from public service obligations (PSO) electricity sales	1 196	1 238
Deferred income from dislocation of electricity equipment	-	7 755
	334 086	356 912

Deferred income from customer connection fees

	2011 12 31	2010 12 31
Opening balance	362 949	377 979
Recognised as income in the statement of comprehensive income	(15 030)	(15 030)
Closing balance	347 919	362 949

	2011 12 31	2010 12 31
Non-current portion	332 890	347 919
Current portion (Note 18)	15 029	15 030
Total	347 919	362 949

With effect from 1 January 2010, all income from the connection of new customers to electricity equipment and from dislocation of electricity lines are recognised in the period in which works are performed. Before 1 July 2009, accrued income used to be recognised as income over an average useful life of non-current assets concerned (Note 2.22).

16. Grants

Movements on the Group's and the Company's grants and subsidies in 2011 and 2010 were as follows

	Group/Company
Balance at 31 December 2009	**50 288**
Received	2 625
Reversed	(29)
Written off	(29)
Amortisation charge	(1 988)
Balance at 31 December 2010	**50 867**
Received	4 508
Reversed	(6 722)
Amortisation charge	(2 283)
Balance at 31 December 2011	**46 370**

Grants consist of funds received from the EU Funds for the purpose of acquisition and construction of structures and electricity networks and of property, plant and equipment received at no consideration from the Government of the Republic of Lithuania.

Amortisation of grants is accounted for under depreciation and amortisation in the statement of comprehensive income and depreciation charges of the related property, plant and equipment are reduced by their amount.

17. Trade and other payables

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Trade payables	142 770	148 195	134 180	139 828
Trade payables to subsidiaries (Note 29)	-	-	10 357	11 119
Trade payables to related parties (Note 29)	135 357	174 796	134 535	173 567
Total trade payables	278 127	322 991	279 072	324 514
Taxes (other than income tax)	8 192	1 951	5 861	554
Employment-related liabilities	4 169	6 994	3 452	6 170
Other current liabilities	9 931	9 543	9 895	8 518
Total other amounts payable	22 292	18 488	19 208	15 242
Trade and other payables	300 419	341 479	298 280	339 756

Trade payables

Terms and conditions of the above financial liabilities:
- Trade payables are non-interest bearing and are normally settled within the term of 60 days.
- Other payables are non-interest bearing and have an average settlement term of 6 months.
- Interest payable is normally paid on a quarterly basis during the financial year.
- Terms and conditions applicable to amounts payable to related parties are described in Note 29.

18. Advance amounts received, accrued charges and deferred income

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Accrued charges	16 161	16 813	14 171	15 262
Current portion of deferred income from new connections (Note 15)	15 029	15 030	15 029	15 030
Current portion of other deferred income	7 697	414	7 697	414
Advance amounts received	49 748	34 408	49 566	34 237
	88 635	66 665	86 463	64 943

Advance amounts received mostly comprise advances received for the connection of new customers and the effects of overdeclared electricity amounting to LTL 10 177 thousand resulting from increased prices for electricity with effect from 1 January 2012. The overdeclared amount in 2011 was accounted for within advance amounts received.

19. Borrowings

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Non-current borrowings				
Borrowings from banks	325 362	219 322	325 362	219 322
Current borrowings				
Bank overdraft	862	28 252	862	28 252
Borrowings from banks	118 504	292 340	118 504	292 340
	119 366	320 592	119 366	320 592
Total borrowings	444 728	539 914	444 728	539 914

All borrowings of the Group and the Company bear variable interest rates with repricing period up to 6 months. No assets have been provided as collateral for borrowings.

The maturity of non-current borrowings was as follows:

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Within 1 to 2 years	119 619	95 474	119 619	95 474
Within 2 to 5 years	194 839	107 492	194 839	107 492
After 5 years	10 904	16 356	10 904	16 356
	325 362	219 322	325 362	219 322

In 2011, the Company was in breach of the financial covenant for one loan relating to cash inflows into bank account. Nevertheless, the Company received a written confirmation from the bank as to the fulfilment of obligations as at 31 December 2011, therefore, the non-current portion of this loan was not reclassified to current portion.

The average interest rates at the date of preparation of the financial statements were as follows:

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Overdraft	0,94	1,18	0,94	1,18
Borrowings from banks	2,28	1,55	2,28	1,55

The carrying amounts of the Group's and the Company's borrowings are denominated in the following currencie

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
LTL	862	28 252	862	28 252
EUR	443 866	511 662	443 866	511 662
	444 728	539 914	444 728	539 914

The Group and the Company have the following undrawn borrowing facilities:

	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Borrowings bearing a variable interest rate and maturing within one year	35 390	252 363	35 390	252 363

20. Deferred income tax

The Group's and the Company's income tax expense/(income) for 2011 and 2010 comprised as follows:

	Group		Company	
	2011	2010	2011	2010
Current year income tax	28 804	29 451	28 803	29 451
Adjustment of previous year income tax	-	(1 753)	-	(1 757)
Deferred income tax (income)/expense	(40 995)	(40 209)	(38 700)	(40 466)
	(12 191)	(12 511)	(9 897)	(12 772)

Deferred income tax assets and deferred income tax liability are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts offset are presented in the table below:

Group	New customer connection income	Impairment of assets	Accrued charges	Tax loss carry-forwards	Tax goodwill arising on business exchange transaction	Electricity overdeclaration	Total
Deferred income tax assets							
Balance at 1 January 2010	12 492	6 740	2 153	627	-	1 897	23 909
Recognised in the statement of comprehensive income	(587)	(214)	459	190	-	(1 897)	(2 049)
Recognised directly in equity	-	29	-	-	126	-	155
Disposal of subsidiaries	-	185	(20)	-	-	-	165
Balance at 31 December 2010	11 905	6 740	2 592	817	126	-	22 180
Recognised in the statement of comprehensive income	(586)	723	(567)	1 210	(34)	1 526	2 272
Balance at 31 December 2011	11 319	7 463	2 025	2 027	92	1 526	24 452

Deferred income tax liabilities	Revaluation of PP&E and differences due to different depreciation rates	Investment relief	Total
Balance at 1 January 2010	(467 672)	(25 421)	(493 093)
Recognised in the statement of comprehensive income	36 844	5 414	42 258
Recognised in other comprehensive income	829	-	829
Recognised directly in equity	(4 654)	-	(4 654)
Disposal of subsidiaries	(27)	-	(27)
Balance at 31 December 2010	(434 680)	(20 007)	(454 687)
Recognised in the statement of comprehensive income	36 793	1 930	38 723
Recognised in other comprehensive income	(301)	-	(301)
Balance at 31 December 2011	(398 188)	(18 077)	(416 265)

Company	New customer connection income	Impairment of assets	Accrued charges	Electricity overdeclaration	Total
Deferred income tax assets					
Balance at 1 January 2010	**12 492**	**6 704**	**1 958**	**1 897**	**23 051**
Recognised in the statement of comprehensive income	(587)	(2)	395	(1 897)	(2 091)
Balance at 31 December 2010	**11 905**	**6 702**	**2 354**	**-**	**20 961**
Recognised in the statement of comprehensive income	(586)	712	(629)	1 526	1 023
Balance at 31 December 2011	**11 319**	**7 414**	**1 725**	**1 526**	**21 984**

Deferred income tax liabilities	Revaluation of PP&E and differences due to different depreciation rates	Investment relief	Total
Balance at 1 January 2010	**(467 342)**	**(25 422)**	**(492 764)**
Recognised in the statement of comprehensive income	37 142	5 415	42 557
Recognised in other comprehensive income	922	-	922
Balance at 31 December 2010	**(429 278)**	**(20 007)**	**(449 285)**
Recognised in the statement of comprehensive income	35 747	1 930	37 677
Recognised in other comprehensive income	(19)	-	(19)
Balance at 31 December 2011	(393 550)	(18 077)	(411 627)

The amount of income tax expenses reported in the statement of comprehensive income attributable to the operating result for the year can be reconciled against the amount of income tax expenses that would result from applying the statutory income tax rate of 15 per cent to profit before tax:

	Group		Company	
	2011	**2010**	**2011**	**2010**
Profit before tax	(73 572)	(74 885)	(56 641)	(74 710)
Income tax	(11 036)	(11 233)	(8 496)	(11 206)
Income not subject to tax	752	923	205	433
Expenses not deductible for tax purposes	(1 813)	(448)	(1 606)	(242)
Tax losses carried forward for which no deferred income tax asset was recognised in the previous periods	(94)	-	-	-
Adjustment in respect of prior years		(1 753)	-	(1 757)
	(12 191)	(12 511)	(9 897)	(12 772)

21. Revenue

	Group		Company	
	2011	**2010**	**2011**	**2010**
Electricity transmission and distribution	2 154 846	2 372 176	2 157 715	2 372 773
Connection of new customers	45 892	38 700	45 894	38 700
Income from lease of premises	5 298	1 990	-	-
Other income	39 448	17 102	12 711	9 469
	2 245 484	2 429 968	2 216 320	2 420 942

22. Employee benefits and related social security contributions

	Group		Company	
	2011	**2010**	**2011**	**2010**
Wages and salaries	106 627	120 355	90 566	104 593
Termination benefits	1 543	11 874	1 205	11 544
Social security contributions	33 796	41 177	28 714	37 023
Vacation accrual	11 329	12 178	9 527	10 884
Social security contributions on vacation accrual	3 508	3 793	2 947	3 390
	156803	189 377	132 959	167 434

23. Finance income/(costs)

	Group		Company	
	2011	**2010**	**2011**	**2010**
Finance income				
Late-payment interest on trade receivables	971	1 462	1 103	1 462
Interest income from credit institutions	2 101	4 291	1 999	4 291
Interest income on loans granted	500	1 890	500	1 890
Dividends income	-	-	-	710
	3572	**7 643**	**3 602**	**8 353**
Finance (costs)				
Interest paid on loans	(10 066)	(9 998)	(10 048)	(9 968)
Derivates – interest rate swaps	(282)	(717)	(282)	(717)
Foreign exchange (loss)	(2)	(2)	(1)	(2)
Other (costs)	-	(59)		(59)
	(10 350)	**(10 776)**	**(10 331)**	**(10 746)**
Finance income/(costs), net	**(6 778)**	**(3 133)**	**(6 729)**	**(2 393)**

24. Other expenses

	Group		Company	
	2011	2010	2011	2010
Write-off of PP&E	13 978	9 748	13 953	9 748
Business trips	220	264	181	209
Consultancy services	1 105	894	787	796
Personnel development	833	839	721	752
Stationery	343	435	273	376
Public relations and marketing	1 409	2 563	1 325	2 491
Asset management costs	460	2 549	460	2 549
Customer service costs	8 317	7 026	8 266	6 985
Checking of equipment and devices	776	613	733	591
Taxes (other than income tax)	7 825	5 446	5 785	4 664
Change in impairment provision for accounts receivable	2 145	4 158	2 148	4 162
Payments under the collective agreement and other additional payments	685	1 595	588	1 536
Insurance	778	522	160	220
Charges and dues	229	606	227	436
Medical care	174	178	127	161
Impairment of investment in subsidiary	-	-	-	2 189
Impairment of investment in associate	-	375	-	-
Other	1 018	5 339	426	1 376
	40 295	43 150	36 160	39 241

25. Basic and diluted earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2011	2010	2011	2010
Net profit (loss) attributable to shareholders of the Company (in LTL thousands)	(54 488)	(63 354)	(46 744)	(61 938)
Weighted average number of shares (thousands)	603 945	603 945	603 945	603 945
Basic earnings (loss) per share (in LTL per share)	(0,090)	(0,105)	(0,077)	(0,103)

Diluted

Diluted earnings (loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares that could theoretically be issued, as disclosed in Note 28, in exchange for the contributions in the form of electricity distribution equipment that is under common use by its owners and the Company. As at 31 December 2011, the Company had no dilutive potential ordinary shares issued that could be acquired in exchange for electricity distribution equipment and does not plan to issue such shares in future.

26. Dividends per share

Approved dividends per share were as follows:

	2011	2010
Approved dividends (in LTL thousand)	60 998	105 919
Weighted average number of shares (thousands)	603 945	603 945
Approved dividends per share (in LTL per share)	0,101	0,175

During the Ordinary Meeting of Shareholders held on 29 April 2011, the Company's shareholders made a decision to distribute dividends of LTL 60 998 thousand. Amount of dividends per share is LTL 0.101.

27. Financial risk management

Credit risk

There is no significant credit risk concentration in the Group and the Company. Credit risk or the risk of counterparties defaulting, is controlled by the application of credit terms and monitoring procedures.

The Group does not issue guarantees to secure the fulfilment of obligations of third parties. The maximum exposure to credit risk is represented by the carrying amount of each item of financial asset, including derivative financial instruments in the statement of financial position, if any. Therefore, the management believes that the maximum exposure to credit risk is equal to the amount of mortgage loans, loans, trade and other receivables and derivative financial instruments less recognised impairment loss at date of the statement of financial position.

Because of the specific nature of the Group's and the Company's operations no collateral is required from customers.

Pursuant to the Articles of Association free liquid funds can be invested only in low-risk money market instruments and debts securities, i.e. term deposits, bonds of reliable financial institutions, securities of Governments. The priority objective of investing activities is to ensure the security of funds and maximise return on investments in pursuance of this objective. Funds can be invested only in debt financial instruments of financial institutions and states assigned with a long-term borrowing rating not lower than "A-" according to the rating agency Fitch Ratings (or a corresponding rating of other rating agencies).

As at 31 December 2011, the maximum exposure to credit risk of the Group and the Company amounted to LTL 245 392 thousand and LTL 225 008 thousand, respectively (31 December 2010: LTL 349 872 thousand and LTL 337 312 thousand, respectively).

Interest rate risk

The Group's and the Company's income and operating cash flows are substantially independent of changes in market interest rates.

All the Group's and the Company's borrowings bear variable interest rate linked to EURIBOR, EUR LIBOR and VILIBOR and expose the Group and the Company to the interest rate risk.

The Group and the Company manage the interest rate risk by entering into interest swap agreements by changing a variable interest rate into a fixed interest rate. The Company takes long-term borrowings from banks with the variable interest rate and concludes respective interest rate swap agreements for changing the variable interest rate to fixed interest rate thus ensuring lower fixed interest rates as compared to those which would have been applicable if the loan agreements with the fixed rate were directly concluded with the banks.

An interest rate swap agreement is a bilateral agreement according to which the parties undertake to swap the cash flows of interest calculated for the period agreed when entering into transaction on the agreed amount. Usually, according to this agreement the cash flows of one financial instrument (either with fixed or variable interest rate) are exchanged with the cash flows from other financial instrument (either with fixed or variable interest rate). In such transaction both parties can pay the calculated amount of interest or one of the parties can pay the difference between the interest amounts.

Interest rate swap agreements are concluded when the increase in the interest base-rate is projected in the future and hence the interest payable by the Group and the Company at the variable interest rate could increase respectively, or when the decrease in interest base-rate is projected in the future and hence the interest payable by the Group and the Company at the fixed interest rate could increase respectively.

As at 31 December 2011 and 2010, borrowings of the Group and the Company, interest rate risk of which is managed by interest rate swaps, amounted to LTL 69 056 thousand.

As at 31 December 2011 and 2010, the Group and the Company had no financial instruments designated to manage exposure to fluctuations in interest rates on the outstanding balance of borrowings (other than described above).

The following table demonstrates the sensitivity of the Group's and the Company's profit before tax to potential shift in interest rates, taking into account the effect of interest rate swaps, with all other variables held constant (by changing the interest rate). There is no impact on the Group's and the Company's equity, other than current year profit impact.

	Group		Bendrovė	
	Increase/ decrease in percentage points	Impact on profit before tax	Increase/ decrease in percentage points	Impact on profit before tax
2011				
EUR	+1	(3 948)	+1	(3 948)
EUR	-1	3 948	-1	3 948
LTL	+0.5	(4)	+0.5	(4)
LTL	-0.5	4	-0.5	4
2010				
EUR	+1	(4 563)	+1	(4 563)
EUR	-1	4 563	-1	4 563
LTL	+0.5	(33)	+0.5	(33)
LTL	-0.5	33	-0.5	33

Foreign exchange risk

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

Liquidity risk

The Group’s and the Company’s policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amounts of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group’s liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 31 December 2011 were 0.53 and 0.51, respectively (31 December 2010: 0.53 and 0.52, respectively). The Company’s liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 31 December 2011 were 0.48 and 0.46, respectively (31 December 2010: 0.51 and 0.50, respectively). In order to minimise balances of cash in bank accounts, the Company is using credit lines.

As at 31 December 2011, the Group‘s and the Company‘s current liabilities exceeded their current assets by LTL 251 258 thousand and LTL 275 922 thousand, respectively (31 December 2010: LTL 341 008 thousand and LTL 353 984 thousand, respectively). The Group‘s and the Company‘s cash flows from operating activities were positive in the year ended 31 December 2011 and amounted to LTL 375 700 thousand and LTL 362 844 thousand, respectively. During the year 2011, the Group‘s and the Company‘s repayments of borrowings amounted to LTL 298 098 thousand. In the opinion of management, cash flows generated by the newly formed company LESTO AB will continued to be sufficient to cover its financial debts.

The table below summarises the maturity profile of the Group’s financial liabilities as at 31 December 2011 and 2010 based on contractual undiscounted payments.

Group

	Up to 3 months	3 to 12 months	1 to 5 years		Over 5 years	Total
Interest-bearing borrowings and other liabilities	27 646	270 389	209 228	-	16 957	524 220
Trade and other payables	331 479	-	593		-	332 072
At 31 December 2010	**359 125**	**270 389**	**209 821**		**16 957**	**856 292**
Interest-bearing borrowings and other liabilities	23 047	105 703	333 007	-	11 190	472 947
Trade and other payables	286 737	-	510		-	287 247
At 31 December 2011	**309 784**	**105 703**	**333 517**		**11 190**	**760 194**

The table below summarises the maturity profile of the Company’s financial liabilities as at 31 December 2011 and 2010 based on contractual undiscounted payments.

Company

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing borrowings and other liabilities	27 646	270 389	209 228	16 957	524 220
Trade and other payables	333 002	-	593	-	333 595
At 31 December 2010	**360 648**	**270 389**	**209 821**	**16 957**	**857 815**
Interest-bearing borrowings and other liabilities	23 047	105 703	333 007	11 190	472 947
Trade and other payables	287 682	-	510	-	288 192
At 31 December 2011	**310 729**	**105 703**	**333 517**	**11 190**	**761 139**

Fair values of financial instruments

The Group's and the Company's principal financial assets and liabilities not designated at fair value are trade receivables and other receivables, trade and other payables, and non-current and current borrowings.

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

The carrying amount of the Group's and the Company's financial assets and financial liabilities approximates their fair value except for mortgage loans as it is disclosed in Note 7.

The fair value of borrowings is estimated based on discounted probable future cash flows using the prevailing interest rates. The fair value of loans and other financial assets is estimated using market interest rates. The fair value of interest rate swap contracts is estimated using valuation techniques established for swap contracts.

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

a) The carrying amount of current trade receivables and other receivables, current trade and other payables and current borrowings approximates their fair value.
b) The fair value of non-current borrowings is estimated based on the quoted market price for the same or similar loan or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

Financial instruments by category

Group	**Loans and receivables**	**Total**
As at 31 December 2011		
Loans	2 707	2 707
Time deposits	5 000	5 000
Trade and other accounts receivable	176 923	176 923
Accrued income	23 750	23 750
Cash and cash equivalents	58 708	58 708
	267 088	267 088
As at 31 December 2011		
Loans	2 867	2 867
Time deposits	5 500	5 500
Trade and other accounts receivable	201 605	201 605
Accrued income	25 836	25 836
Cash and cash equivalents	139 621	139 621
	375 429	375 429

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
At 31 December 2011			
Borrowings	444 728	-	444 728
Trade and other payables	286 737	-	286 737
Derivative financial instruments	-	1 511	1 511
Other liabilities	510	-	510
			-
At 31 December 2010			
Borrowings	539 914	-	539 914
Trade and other payables	331 479	-	331 479
Derivative financial instruments	-	1 229	1 229
Other liabilities	593	-	593
	871 986	1 229	873 215

Company	Loans and receivables	Total
At 31 December 2011		
Loans and time deposits	2 707	2 707
Trade and other receivables	171 086	171 086
Accrued income	23 750	23 750
Cash and cash equivalents	44 161	44 161
	241 704	241 704
At 31 December 2010		
Loans	2 867	2 867
Time deposits	5 500	5 500
Trade and other accounts receivable	198 534	198 534
Accrued income	25 836	25 836
Cash and cash equivalents	130 132	130 132
	362 869	362 869

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
At 31 December 2011			
Borrowings	444 728	-	444 728
Trade and other payables	287 682	-	287 682
Derivative financial instruments	-	1 511	1 511
Other liabilities	510	-	510
	732 920	1 511	734 431
At 31 December 2010			
Borrowings	539 914	-	539 914
Trade and other payables	333 002	-	333 002
Derivative financial instruments	-	1 229	1 229
Other liabilities	593	-	593
	873 509	1 229	874 738

28. Commitments and contingencies

Buyout of electricity equipment

According to Order No 4-450 of 3 December 2003 of the Lithuanian Minister of Economy, as amended by Order No 4-72 of 15 February 2005, the Company conducted the buyout from individuals and companies electricity distribution equipment jointly used by them and the Company. The Company was able to buy out such equipment in one of the following ways: either by transferring its newly issued shares to the owners of the equipment, the issue price of which would be paid by in-kind contributions (i.e. electricity equipment under common use), or by signing agreements on sale-purchase of electricity equipment under common use (monetary contributions).

Under Order No.1-243 of 9 December 2009 of the Lithuanian Minister of Energy, a new version of the Procedure for the buyout and maintenance of electricity equipment for common use designated for the transmission and/or distribution of electricity that was installed using the funds of users (natural and legal persons) prior to the effective date of the Lithuanian Law on Energy, which became effective from 1 January 2010 (the Procedure).

According to Resolution No. 1281 of 5 December 2007 of the Government of the Republic of Lithuania, the following deadlines for the submission of documents by homestead cooperatives were established: applications to energy companies with the requests to buyout equipment had to be submitted by 1 July 2009. In 2011, LESTO AB, a company formed as a result of merger of RST and VST, continued the simplified procedure of buyout of electricity objects (electricity networks) installed for common use using the funds of homestead owners in line with the deadlines stipulated in Resolution No. 1257 of 31 August 2010 of the Lithuanian Government *On the establishment of deadlines for the buyout from cooperatives the electricity transmission and distribution lines, transformer substations, electric facilities and other equipment designated for the transmission and distribution of electricity and installed in the territory of homestead owners using the funds of such homestead owners*, i.e. by 1 July 2011.

In 2011, LESTO AB continued the simplified procedure of buyout of electricity objects (electricity networks) installed for common use using the funds of homestead owners, if the requests for buyout were submitted before 1 July 2011. During the year 2011, 117 electricity networks of common use for the value of LTL 1 852 million were bought out. Since the beginning of the buyout until 31 December 2011, 882 electricity networks of common use of homestead cooperatives for the value of LTL 10 410 million were bought out. As at 31 December 201 there were 59 buyout request received under simplifies procedures and not yet fulfilled.

Capital expenditure commitments

As at 31 December 2011, the Group's and the Company's capital expenditure commitments assumed under the contracts as at the date of the financial statements but not accounted for in the financial statements amounted to LTL 7 146 thousand.

29. Related-party transactions

The Company's related parties in 2011 and 2010 were as follows:

- Visagino Atominė Elektrinė UAB (the majority shareholder of the Company) and its subsidiaries. Visagino Atominė Elektrinė UAB is wholly-owned by the Ministery of Energy of the Republic of Lithuania (ultimate controlling party);
- Government-related entities;
- E.ON Ruhrgas International AG (Germany);
- Subsidiaries of the Company;
- Associates of the Company;
- Management of the Company.

Transactions with related parties are presented below:

Sales	Group		Company	
	1 January to 31 December		1 January to 31 December	
	2011	2010	2011	2010
Subsidiaries	-	-	3 255	156 216
Associates	8 994	19 616	239	16 249
Visagino Atominė Elektrinė UAB (LEO LT AB until 4 June 2010) group companies	20 158	21 999	1 907	16 781
	29 152	41 615	5 401	189 246

Purchases	Group		Company	
	1 January to 31 December		1 January to 31 December	
	2011	2010	2011	2010
Subsidiaries	-	-	69 941	69 218
Associates	56 729	23 440	54 675	22 717
Visagino Atominė Elektrinė UAB (LEO LT AB until 4 June 2010) group companies	1 294 402	1 506 929	1 292 971	1 506 065
	1 351 131	1 530 369	1 417 587	1 598 000

Compensation of key management personnel

	Group		Company	
	1 January to 31 December		1 January to 31 December	
	2011	2010	2011	2010
Salaries and other short-term employee benefits	1 776	2 002	1 776	2 002

In 2011, the number of the Company's key management personnel was 9 (2010: 10).

Balances arising from transactions with related parties are presented below:

Amounts receivable	Group		Company	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Subsidiaries	-	-	834	594
Associates	1 933	1 505	14	207
Visagino Atominė Elektrinė UAB group companies	18 725	10 310	14 882	8 454
	20 658	11 815	15 730	9 255

Amounts payable	Group		Company	
	31 Dec 2011	31 Dec 2010	2011 12 31	2010 12 31
Subsidiaries	-	-	10 357	11 119
Associates	7 021	13 797	6 374	13 018
Visagino Atominė Elektrinė UAB group companies	128 336	160 999	128 161	160 549
	135 357	174 796	144 892	184 686

Loans granted

In 2011, the Company fulfilled its commitment to pay dividends of LTL 13 980 thousand to Visagino Atominė Elektrinė UAB by way of offsetting this commitment against the commitment of Visagino Atominė Elektrinė UAB to repay to the Company an outstanding balance of loan of LTL LTL 13 980 thousand based on the loan agreement of 3 December 2009. After the offsetting, the commitment of Visagino Atominė Elektrinė UAB to repay to the Company an outstanding balance of loan under the loan agreement of 3 December 2009 was deemed to be fulfilled.

In 2010, the Company fulfilled its commitment to pay dividends of LTL 77 668 thousand to LEO LT AB by way of offsetting this commitment against the commitment of LEO LT AB to repay to the Company an outstanding balance of loan LTL 77 668 thousand.

Guarantees issued

In 2011 the Company issued a guarantee to the bank in favour of its subsidiary Elektros Tinklo Paslaugos UAB and associate Tetas UAB in relation to overdraft services: the guarantee amount for Elektros Tinklo Paslaugos UAB was LTL 4 000 thousand, and LTL 3 450 thousand for Tetas UAB.

The ageing analysis of amounts receivable from related parties as at 31 December 2011 is presented below:

	Amounts receivable neither past due nor impaired	Amounts receivable past due but not impaired: Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	Total
Company	15 730	-	-	-	-	-	15 730
Group	20 658	-	-	-	-	-	20 658

The ageing analysis of amounts receivable from related parties as at 31 December 2010 is presented below:

	Amounts receivable neither past due nor impaired	Amounts receivable past due but not impaired: Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	Total
Company	9 255	-	-	-	-	-	9 255
Group	11 815	-	-	-	-	-	11 815

30. Capital risk management

Pursuant to the Lithuanian Law on Companies the share capital of a public company must be not less than LTL 100 thousand and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2011 and 31 December 2010, the Group and the Company complied with these requirements.

When financing its business activities, the Group and the Company follow an optimal capital structure management policy seeking to make sure that the equity ratio (equity to assets ratio) exceeds 40 per cent. For the purpose of capital management the Group's and the Company's management define capital as shareholders' equity.

	Group		Company	
	2011	2010	2011	2010
Equity	3515962	3630416	3528744	3636378
Assets	5283545	5561712	5162360	5426198
Equity ratio (equity to assets ratio)	67%	65%	68%	67%

31. Investments in associates

On 21 October 2010, the share subscription agreement was signed with Technologijų ir Inovacijų Centras UAB (Visagino Atominė Elektrinė UAB). The Company acquired 43.03 per cent of the authorised share capital of Technologijų ir Inovacijų Centras UAB. Purchase consideration for the shares acquired comprised in-kind contribution of property plant and equipment with the carrying amount of LTL 13 724 thousand (equivalent to fair value) (Note 4), intangible assets with the carrying amount of LTL 1 280 thousand (Note 5), inventories with the carrying amount of LTL 678 thousand and monetary contribution of LTL 3 400 thousand. The fair value of the assets contributed was determined by independent property valuers Re&Solution Valuations UAB.

On 15 October 2010, the Share Subscription Agreement was signed with TETAS UAB (the Company's subsidiary). As a result, the authorised share capital of TETAS UAB was increased by LTL 3 679 thousand by way of issuing 1 533 thousand ordinary registered shares with par value of LTL 2.40 each. The Company paid for 208 thousand additionally acquired shares by a monetary contribution of LTL 500 thousand. Other shareholders acquired 1 325 thousand ordinary registered shares. After this transaction the Company lost control over TETAS UAB due to contributions made by other shareholders (before the transaction the Company owned 100 per cent of shares of TETAS UAB). TETAS UAB became the associate of the Company in which the Company holds interest of 38.87 per cent.

On 28 December 2011, all 32 163 004 newly issued ordinary registered shares of Technologijų ir Inovacijų Centras UAB with par value of LTL 1 each were acquired by Lietuvos Energija AB (a company belonging to Visagino Atominė Elektrinė group). Based on the Agreement for Subscription of Shares, the payments for the shares was made by in-kind contribution. Lietuvos Energija AB disposed of 12 847 295 ordinary registered intangible shares of Data Logistics Center UAB with par value of LTL 1 each, which made up 100% of the latter company's authorised share capital. As a result of this transaction, the Company's ownership interest in Technologijų ir Inovacijų Centras UAB decreased from 43.03% to 24.94%.

Movements in investments in associates are summarised below:

	Group		Company	
	2011	2010	2011	2010
At 1 January	18 693	-	21 570	-
Acquisition of associates	-	19 582	-	19 582
Transfer from investments in subsidiaries as a result of loss of control	-	1 988	-	1 988
Share of (loss) of associates	264	(1 269)	-	-
Share of other comprehensive (loss) of associates	-	(1 559)	-	-
Gain on change in ownership interest in associate	-	(375)		
Gain (loss) on decrease in ownership interest in	2 237	326	-	-
At 31 December	21 194	18 693	21 570	21 570

Financial results of operations of associates are presented below:

Name	Country	Assets	Liabilities	Sales revenue	Net profit (loss) for the year	Ownership interest (%) at 31 December
2010						
Technologijų ir Inovacijų Centras UAB	Lithuania	50120	14578	11047	(4 026)	43,03
Tetas UAB	Lithuania	23706	9974	20565	382	38,87
2011						
Technologijų ir Inovacijų Centras UAB	Lithuania	78591	9175	48147	(423)	24,94
Tetas UAB	Lithuania	20284	10424	55634	1191	38,87

Gain (loss) on decrease in ownership interest in associate

Gain from contributions of other companies	8 583
Loss on ownership interest lost	(6 346)
	2 237

32. Investments in subsidiaries

In the Company's financial statements:

	Company 2011	Company 2010
At 1 January	191 018	36 643
Contribution to share capital of subsidiary	-	158 552
Increase (decrease) in value	-	(2 189)
Loss of control over subsidiaries (Note 31)	-	(1 988)
At 31 December	191 018	191 018

Loss of control over the subsidiary TETAS UAB is described in Note 31.

In the Group's financial statements:

On 26 October 2010, the share capital of the Company's subsidiary Elektros Tinklo Paslaugos UAB was increased by 4 731 440 ordinary registered shares with par value of LTL 1 each. The total amount of the contribution was LTL 4 731 thousand. These shares were bought out by Lietuvos Energija AB (company of Visagino Atominė Elektrinė UAB group). As a result, the Company's ownership interest in Elektros Tinklo Paslaugos UAB decreased from 100 to 71.13 per cent. The Company's portion of the above-mentioned contribution amounted to LTL 3 365 thousand, whereas non-controlling interest's portion amounted to LTL 1 366 thousand.

Presented below is the calculation of the loss on the disposal of ownership interest in the subsidiary.

	2010
Consideration received – contributions of non-controlling interests in the share capital of the subsidiary	75 532
In-kind contribution	(64 586)
Net assets transferred to non-controlling interests	(14 370)
Loss on disposal of interest in subsidiary	**(3 424)**

On 21 October 2010, the Share Subscription Agreement was signed with Kruonio Investicijos UAB (on 28 October 2010 changed the name to NT Valdos UAB). The Company acquired 57.93 per cent of the authorised share capital of NT Valdos UAB. The purchase consideration for the shares acquired comprised an in-kind contribution of property plant and equipment with the carrying amount of LTL 153 521 thousand (equal to the fair value) (Note 4) and transfer of 22 998 thousand ordinary registered shares of Rytra UAB with the fair value of LTL 25 839 thousand at the date of the transaction (before the transaction, the Company owned 100 per cent of shares of Rytra UAB). The fair value of in-kind contribution was determined by independent property valuers Re&Solution Valuations UAB.

33. Business combinations

Business combination between RST and VST

A business combination (merger) between RST and VST was accounted for by the predecessor method of accounting. Upon merger of entities, neither of the entities in business combination gained control over the other entity, the assets and liabilities, income and expenses of such entities were combined for all the reporting periods presented in the financial statements.

The Company's financial information

The amounts reported in the Company's statement of financial position as at 31 December 2010 and in the statement of comprehensive income for the period then ended are equal to the sum of amounts reported in the financial statements of RST and VST.

Consolidated financial information

Following the merger of RST and VST, NT Valdos UAB became the Group's subsidiary (As at 31 December 2010, it was an associate of RST and VST). In addition, this merger resulted in a change of ownership interest in associate Technologijų ir Inovacijų Centras UAB (as at 31 December 2010, it was an associate of RST, whereas VST accounted for this investment as available-for-sale financial assets). As a result, the amounts reported in the consolidated statement of financial position as at 31 December 2010 and in the consolidated statement of comprehensive income for the period then ended are equal to the sum of items reported in RST's consolidated financial statements and VST's financial statements for the same period, as adjusted for the changes described above. As a result of these changes, non-current assets, current assets, equity and liabilities reported in the consolidated statement of financial position as at 31 December 2010 increased by LTL 122 119 thousand, LTL 10 023 thousand, LTL 124 992 thousand and LTL 7 150 thousand, respectively, as compared to the sum of items reported in RST's consolidated statement of financial position and VST's statement of financial position as at 31 December 2010.

The above-mentioned changes had the following impact on the consolidated statement of comprehensive income for the year ended 31 December 2010: (loss) for the year decreased by LTL 728 thousand, total comprehensive (loss) for the year decreased by LTL 460 thousand.

Exchange of business between Elektros Tinklo Paslaugos UAB and Tetas UAB

On 18 October 2010, the Agreement on Assets Exchange Transaction was signed between Elektros Tinklo Paslaugos UAB (subsidiary of the Company) and Tetas UAB (associate of the Company). Elektros Tinklo Paslaugos UAB acquired the business of maintenance of transformer substations and distribution stations in the regions of Vilnius and Utena for a consideration of LTL 1 350 thousand and transferred the business of operation of the distribution network in the regions of Alytus and Panevėžys for a consideration of LTL 2 507 thousand. Elektros Tinklo Paslaugos UAB and Tetas UAB are jointly controlled entities. Assets acquired were stated at carrying amounts shown in the statement of financial position of the transferor before the transfer of the business.

The details of the exchange transaction are given below:

Cash received	288
Property, plant and equipment received	282
Inventories received	780
Property, plant and equipment transferred	(1 272)
Inventories transferred	(1 235)
Deferred income tax recognised	220
(Loss) on assets exchange transaction	**(937)**

34. Non-cash transactions

The following main non-cash items were eliminated for the purpose of the cash flows statement:

In 2011
Offsetting of dividends against the outstanding balance of loan of Visagino Atominė Elektrinė UAB amounting to LTL 13 980 thousand (Note 29).

In 2010
Offsetting of dividends against the outstanding balance of loan of LEO LT AB amounting to LTL 77 668 thousand (Note 29).

In-kind contribution of LTL 15 221 thousand to the share capital of associate Technologijų ir Inovacijų Centras UAB (Note 31).

In-kind contribution to the share capital of subsidiary Kruonio Investicijos UAB consisting of property, plant and equipment with the carrying amount of LTL 153 521 thousand and the shares of the subsidiary with the value of LTL 25 839 thousand (Note 32).

Purchase of assets from Visagino Atominė Elektrinė UAB: by offsetting against the outstanding balance of loan of LTL 1 352 thousand.

35. Events after the end of the reporting period

On 1 January 2012 at 00:00 am, based on the Share Subscription Agreement of 23 December 2011, for the newly issued shares the Company transferred to its subsidiary Elektros Tinklo Paslaugos UAB property, plant and equipment for the value of LTL 708 thousand and inventories and other current assets for the value of LTL 3 343 thousand. The valuation of assets transferred was conducted by Inreal UAB. As a result of this in-kind contribution, the Company's ownership interest increased from 71.13% to 74.97%.

On 31 January 2012, the Agreement for Share Subscription and In-kind Payment was signed with NT Valdos UAB. As a result, the authorised share capital of NT Valdos UAB was increased by LTL 4 338 100 by way of issuing 43 381 ordinary registered shares with par value of LTL 100 each. The Company acquired 5 591 shares of NT Valdos UAB. The Company's in-kind payment for the shares acquired consisted of non-current assets with the carrying amount of LTL 559 100 (equal to the fair value). Following this transaction, the Company's ownership interest decreased from 57.93% to 57.30%.

AB LESTO group, AB
Consolidated annual report, 2011

27 March 2012

CONTENTS

CEO ADDRESS TO COMPANY'S SHAREHOLDERS

Ladies and Gentlemen,

2011 was the first year of operation of the Lithuanian electricity distribution network operator AB LESTO. It was full of challenges. We have carried out a smooth merger of two power distribution companies – AB "Rytų skirstomieji tinklai" and AB VST - and started a different stage of new qualitative activities. Although the society expressed various evaluations and doubts on the merger, the new distribution network operator AB LESTO adopted best practices of several companies, uniformed the operation processes, and went to common information systems, introduced a new standard of customer service and made every effort to ensure that customers are given the best service and receive the most appropriate solutions.

The service of electricity provided by AB LESTO is the first among those which mark the beginning of our day and work. All this places huge responsibility on our company and, at the same time, obliges us to make necessary efforts to excel the quality standards of power supply, to ensure that the customers are satisfied with the services and that the expectations of the shareholders are met.

*The results of the customer satisfaction survey are encouraging and prove that we are taking the right steps. In 2011, the customer satisfaction index of the LESTO private customers on the services provided and the maintenance (TRI * M) meets the average index of the European energy sector (the index was 53), the satisfaction index of the business customers was very similar (50). The opinion of our customers sets the guidelines for our further perfection when meeting their current expectations and forecasting those for the future.*

In 2011, LESTO signed more than 100 thousand electricity purchases and sales agreements with private customers and about eight thousand agreements with business customers. The number of private customers was more than 1.51 million and of business customers - 62 thousand.

In 2011, we have enlarged the investment in the electricity distribution network and it totaled nearly 300 million LTL. We invest in the underground power lines, not only because of a cheaper maintenance, resistance to natural disasters, and higher reliability. We respect the environment in which we live, so we attempt that the technological progress, while providing the benefits to business and market, not adversely affect the environment. In 2011, LESTO laid 1083.6 kilometers of new lines, including 1,012.9 km underground. Also LESTO completed the reconstruction of eleven transformer substations, built five 10 kV distribution points, modernized thirteen transformer substations and eighteen distribution points, and built 958 new 10/0.4 kV transformer stations. Now the users, especially during natural disasters, can feel that power supply is better and more stable, and LESTO operation at the same time becomes more effective.

Last year, from the very beginning of the year LESTO had to face large-scale effects of natural disasters. Raging blizzards in January led to massive logging off, but the newly established company has overcome this challenge rallying the competent professionals, most of them were the staff of the former companies. Leaving aside the effects of natural phenomena ("force majeure"), in 2011, the average frequency of unscheduled interruptions per one user was 84.68 minutes, the average number of permanent unscheduled interruptions per customer (SAIFI) in 2011 was equal to 1.12 times.

According to unaudited data, the LESTO group earned 360.6 million LTL in the consolidated profit before interest, taxes, depreciation and amortization (EBITDA). In comparison with the results of AB "Rytų skirstomieji tinklai" and AB VST which operated in 2010, EBITDA was 5.1 per cent lower. During the year, EBITDA profit margin increased from 15.63 per cent up to 16.06 per cent. The increased electricity purchase prices, lower distribution service price ceilings and large amortization payments determined the unprofitable activity of the group: in 2011 consolidated net loss of the LESTO group was equal to 63.87 million LTL.

LESTO makes major investment in the employees: we strive that every worker acquires the highest competencies needed to perform his duties. One of the principal directions of personnel management policies in 2011 were the mastering of leadership skills and effective and qualitative customer service.

We develop and introduce new technologies, whereas the technologies are creating a new society: the growing intensity of life determines that the provision of services by telecommunication and online communication channels in 2011 was and remains our priority in the achievement of the best and expeditious customer service. Most services are now available to customers through remote channels of customer service which allows the operations get more effective while improving a service quality. We aim that all concerns of our customers are resolved without them leaving their home or workplace.

In 2011, we promoted modern methods of payment: we encouraged our customers to refuse the payment books, offered them to choose direct debit. For the first time in the history of power transmission and distribution system, we introduced new payment plans thus the customers received additional options. Two new payment plans "Home" and "Home Plus" which placed on the market show that we are able to respond to market changes, to the changing customer habits and needs, to the latest market trends in the European Union.

Only having ensured the interests of the consumers and creating the organizational culture based on cooperation, respect, dedication, positive outlook and innovation, we can increase the efficiency of the company and seek the highest value in the long term.

The long-term strategy of LESTO is to reliably meet the customer needs while introducing innovation in all areas of the company activity and to become a model company, which enjoys the confidence of the public. Responsible work and investment in innovative, reliable and safe electricity supply is our contribution to your success and meaningful life. We see potential to expand the activity of our company: these are the new services and products. We believe that we will avail all existing opportunities for the good of us.

We are working hard and striving that our customers could take pleasure in the services of higher quality and the needs satisfied, the society could enjoy the responsible approach of the company to business, the employees - the opportunities to perfect their skills and pursue their goals, and the company shareholders - the company value growth. I believe that we together can achieve our goals, so we look to 2012 positively and hope for the better results in all company activities.

Respectfully,

Arvydas Tarasevičius,

CEO, AB LESTO

GENERAL INFORMATION

Reporting period covered by the report

Report covers January to December of 2011.

Key data on issuer

Company name	AB LESTO
Company code	302577612
Authorised capital	LTL 603 944 593
Registered address	Žvejų str. 14, LT-09310 Vilnius
Telephone	+370 5 277 7524
Fax	+370 5 277 7514
E-mail	info@lesto.lt
Website	www.lesto.lt
Legal- organisational form	Joint-stock company
Date and place of registration	27 December 2011, Register of Legal Entities of the Republic of Lithuania
Register in which data on the company is collected and stored	Register of Legal Entities
Register manager	State Enterprise Centre of Registers

Information availability

This report and other documents based on which it has been prepared are available at the company's office at Žvejų str. 14, Vilnius, Corporate Communication department (office No.118) from 7.30 to 16.30 Monday to Thursday and from 7.30 to 15.15 on Fridays. Report is available on company's website (www.lesto.lt) and on Stock exchange market NASDAQ OMX Vilnius website (http://www.nasdaqomxbaltic.com) .

Public announcements that AB LESTO must announce according to the valid Laws of the Republic of Lithuania, are published via Register of Legal Entities electronic edition for public announcements. Company also publishes announcements via company's website (www.lesto.lt) and Stock exchange market NASDAQ OMX Vilnius website (www.nasdaqomxbaltic.com).

Persons responsible for the information provided in the report

Office	Name, surname	Telephone
Chief Executive Officer	Arvydas Tarasevičius	+370 5 251 7524
Director of Finance and Administration division	Ramutė Ribinskienė	+370 5 251 7524
Director of Finance department	Artūras Jočius	+370 5 251 7524
Director of Accounting department	Zina Chmieliauskienė	+370 5 251 7524

Report is prepared in accordance with Law on Securities of the Republic of Lithuania, decision of the Securities Commission of the Republic of Lithuania No. 1K-6 (29 July, 2010) on Rules of Drawing up and the Submission of the Periodic and Additional Information, and other valid laws and legal acts.

Report signature date

Report was prepared and signed on 27 March, 2012.

LESTO activities

AB LESTO (hereinafter – LESTO, Company) was established on the basis of reorganized Lithuanian electricity distribution companies Rytų skirstomieji tinklai AB and "VST" AB that were merged and on 31 December, 2010, finished their activity as legal entities. LESTO took over assets, rights and obligations of merged companies and since 1 January, 2011 started its activity as electricity distributor and public supplier.

LESTO is Lithuanian distribution network operator. Company's main responsibilities include: provision of network service for customers; satisfaction of customers needs; effective connection of new users; exploitation, maintenance, management and expansion of distributive network; assurance of network security; optimization of operating costs and reduction of technological losses. LESTO geographical market is Lithuania.

LESTO values

COOPERATION: We work and take responsibility as a team.

RESPECT: We respect each individual and the surrounding environment.

DEDICATION: We are proud to represent energy sector and serve our community.

POSITIVE ATTITUDE: We are always looking ahead and constantly spread good mood.

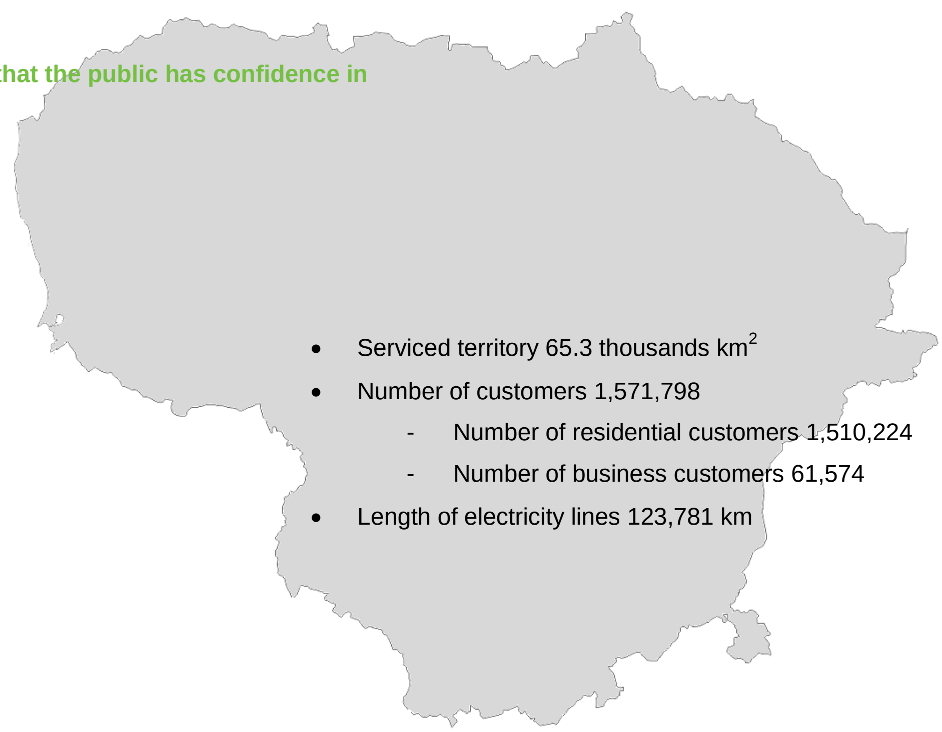
INNOVATIVENESS: We are seeking perfection and initiating changes.

LESTO mission

Reliable electricity for a meaningful life of everyone

LESTO vision

A model company that the public has confidence in



- Serviced territory 65.3 thousands km^2
- Number of customers 1,571,798
  - Number of residential customers 1,510,224
  - Number of business customers 61,574
- Length of electricity lines 123,781 km

LESTO company group

LESTO with its subsidiaries ELEKTROS TINKLO PASLAUGOS UAB, NT Valdos UAB and associated companies Technologijų ir inovacijų centras UAB (On report signature date Technologijų ir inovacijų centras UAB had 100% Respublikinio energetikų mokymo centras VsI, 100% Data logistics centre UAB, 0,6% NT Valdos, UAB capital), TETAS UAB make up LESTO company group (hereinafter – LESTO group).

Key data on subsidiaries and associated companies

	Elektros tinklo paslaugos UAB	NT Valdos UAB	Technologijų ir inovacijų centras UAB	TETAS UAB
Address	Motorų str. 2, Vilnius	Geologų str. 16, Vilnius	A.Juozapavičiaus str. 13, Vilnius	Senamiesčio str. 102B, Panevėžys
Registration date	8 December 2004	18 January 2007	9 July 2010.	8 December 2005
Company code	300072351	300634954	302527488	300513148
Telephone	+370 5 210 6809	+370 5 210 6539	+370 5 278 2272	+370 5 504 670
Fax	+370 5 216 7875	+370 5 210 6543	+370 5 278 2299	+370 5 504 684
E-mail	etp@etpa.lt	info@valdos.eu	info@etic.lt	tetas@rst.lt
Website	-	www.valdos.eu	www.etic.eu	-
LESTO ownership, %, 31 December, 2011	71.13	57.93	24.94	38.87
LESTO ownership, %, on report signature date	74.97[1]	57.30[2]	24.94	38.87
Profile of activities	Power network engineering, construction, repair, maintenance and customer connection to the grid services.	Real estate and transport rental and administration services.	IT and communication services.	Power network engineering, construction, repair, maintenance and customer connection to the grid services

[1] LESTO ownership has changed on 23 December, 2011 by the decision of UAB „ELEKTROS TINKLO PASLAUGOS“ shareholders to increase share capital by additional non-monetary contribution. (The decision become effective from 1 January, 2012)

[2] LESTO ownership has changed on 23 January, 2012 by the decision of NT Valdos, UAB shareholders to increase share capital by additional non-monetary contribution.

LESTO management

LESTO management bodies include General Meeting of Shareholders, Board and Chief Executive Officer. LESTO does not have Supervisory Board.

General Meeting of Shareholders

General Meeting of Shareholders is a 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 the law, other legal acts and Articles of Association.
During the reporting period shareholders of the Company had equal rights (property and non-property) defined in the law, other legal acts and Articles of Association. None of the LESTO shareholders had any special rights of control.
The managing bodies of the Company provided adequate conditions for exercise of the rights of the Company's shareholders during the reporting period.

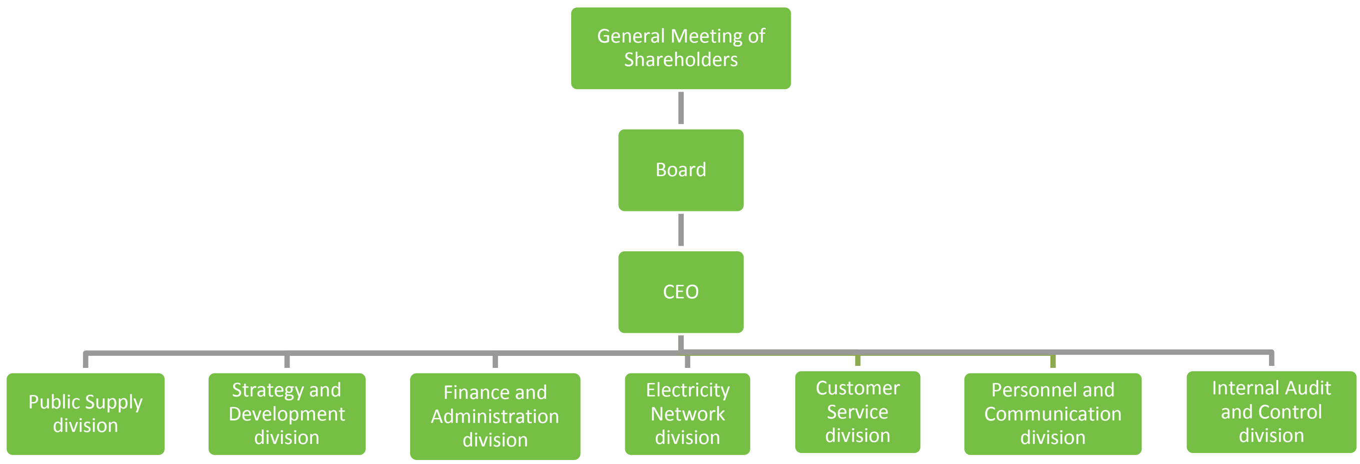
Board

LESTO Board is a collegiate managing body of the Company.
The competence of the Board, the procedure for adoption of decisions, election and recall of members are governed by the law, other legal acts and Articles of Association. The Board consists of five Board members that are elected by the General Meeting of Shareholder for the term of four years. The Board members elect the chairman of the Board out of its members.
In the beginning of the reporting period the Board of the Company consisted of the chairman of the Board Arvydas Darulis and Board members: Kęstutis Žilėnas, Dalius Misiūnas, Aloyzas Vitkauskas, Šarūnas Vasiliauskas.
On 29 April, 2011 the Board member Dalius Misiūnas was recalled from the LESTO Board and Arvydas Tarasevičius was elected to the Board by the decision of General Meeting of Shareholders.
On 21 October, 2011 the mandate of the Board member Šarūnas Vasiliauskas has expired.
In the end of reporting period, 31 December, 2011 the Board of the Company consisted of the chairman of the Board Arvydas Darulis and Board members: Kęstutis Žilėnas, Arvydas Tarasevičius, Aloyzas Vitkauskas.
On 3 January, 2012 the Board member Arvydas Darulis, who was also the chairman of the Board from 13 December, 2010 by the decision of the Board, was recalled by the decision of General Meeting of Shareholders. Rimantas Vaitkus and Darius Maikštėnas were elected as new members of the Board.
On 3 January, 2012 Kęstutis Žilėnas was elected as a chairman of the Board by the decision of the Board.
On the report signature day the Board of the Company consists of the chairman of the Board Kęstutis Žilėnas and Board members: Rimantas Vaitkus, Arvydas Tarasevičius, Aloyzas Vitkauskas, Darius Maikštėnas.

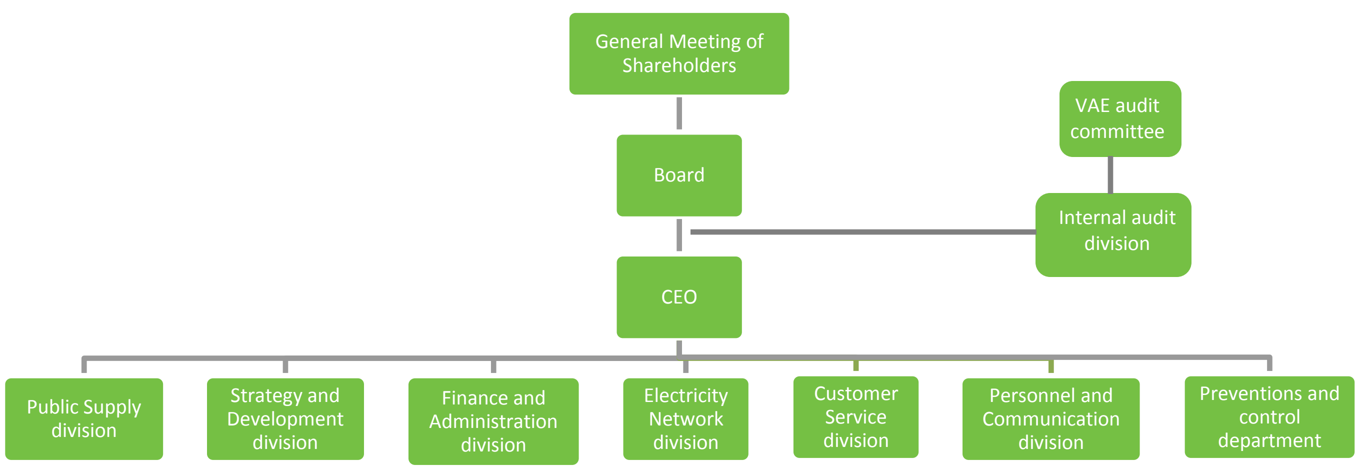
Chief Executive Officer

Chief Executive Officer (hereinafter – CEO) is a one-person managing body of the Company.
The competence of the Managing Director and the procedure for election and recall thereof are governed by the law, other legal acts and Articles of Association. CEO is elected and recalled by the Board of the Company. CEO organises the Company's activities, manages the Company, act on behalf of the Company and unilaterally conclude transactions.
On 13 December, 2010 Arvydas Tarasevičius was elected as a CEO of LESTO.

LESTO management structure until the 1st November, 2011



LESTO management structure from the 1st November, 2011



LESTO Board and CEO

Arvydas Darulis
Member of the Board,
chairman of the Board

In this position:
from13 December, 2010 to
3 January, 2012
Education:
Vilnius University, Master in Economics.
Dalhousie University, Baltic economic management training programme.
Main occupation: Ministry of Energy of the Republic of Lithuania, Vice-minister

Kęstutis Žilėnas
Member of the Board,
chairman of the Board

In member of the Board position:
since 13 December, 2010
In chairman of the Board position:
since 3 January, 2012
Education:
Kaunas University of Technology, Master in Computer Systems and Network Engineering.
Mykolas Romeris University, Master in Law.
Main occupation: Ministry of Energy of the Republic of Lithuania, Vice-minister

Aloyzas Vitkauskas
Member of the Board

In this position:
since 13 December, 2010
Education:
Vilnius Gediminas Technical University, Master in Civil Engineering.

Main occupation: Ministry of Finance of the Republic of Lithuania, Vice-minister

Arvydas Tarasevičius
Member of the Board

In this position:
since 29 April, 2011
Education:
Vilnius University, Master in Economic Cybernetics.
Vilnius University, Doctor of Social Sciences.
Main occupation: LESTO AB, CEO

Rimantas Vaitkus
Member of the Board

In this position:
since 3 January, 2012
Education:
Vilnius University, Master in Physics.
Vilnius University, Doctor of Natural Science.
Main occupation:
UAB „Visagino atominė elektrinė“, CEO.

Darius Maikštėnas
Member of the Board

In this position:
since 3 January, 2012
Education:
Kaunas University of Technology, Master in Business Management.
Baltic Management Institute, Executive MBA.
Harvard Business School, GMP graduate.

Main occupation:
UAB „Omnitel“, Vice-president for Marketing and Services.

Information on LESTO Board members participation in the activities of companies and organisations; shareholding in other companies exceeding 5% of capital/votes

Name, surname	Name of organisation, position	Capital held, %	Share of votes, %
	Board		
Kęstutis Žilėnas	LESTO AB, chairman of the Board	-	-
	Ministry of Energy of the Republic of Lithuania, Vice-minister		
	Lietuvos energija AB, chairman of the Board	-	-
	AB “LIETUVOS DUJOS”, member of the Board	-	-
Aloyzas Vitkauskas	LESTO AB, member of the Board	-	-
	Ministry of Finance of the Republic of Lithuania, Vice-minister	-	-
	Lietuvos energija AB, member of the Board	-	-
	UAB “Visagino atominė elektrinė”, member of the Board	-	-
	State Enterprise Turto bankas, chairman of the Board	-	-
	State Enterprice Valstybės turto fondas, chairman of the Board	-	-
Rimantas Vaitkus	LESTO AB, member of the Board	-	-
	Lietuvos energija AB, member of the Board	-	-
	UAB “Visagino atominė elektrinė”, CEO and member of the Board	-	-
	Association of Lithuania and Japan, chairman	-	-
Darius Maikštėnas	LESTO AB, member of the Board	-	-
	UAB “Omnitel”, vice-president for Marketing and Services	-	-
	“TeliaSonera AB” mobile services, business manager of business and private clients of Lithuania	-	-
	Social organization “Gelbėkit vaikus”, member of the Board	-	-
Arvydas Tarasevičius	LESTO AB, CEO and member of the Board	-	-
	Technologijų ir inovacijų centras UAB, member of the Board	-	-
	NT Valdos UAB, member of the Board	-	-
	LITHUANIAN ELECTRIC ENERGY ASSOCIATION, member of the Council	-	-
	Homestead cooperative Žemyna, member of the Board	-	-
	VšĮ Respublikinis energetikų mokymo centras, member of the Board	-	-
	CEO		
Arvydas Tarasevičius	Look for the information above	-	-
	Chief Accountant, Director of Accounting department		
Zina Chmieliauskienė	-	-	-

[1]On 3 January, 2012 Kęstutis Žilėnas was elected as a chairman of the Board by the decision of the Board.

Information on payments to LESTO Board members*, CEO and Director of Accounting department over reporting period**

	Salaries, LTL	Other payments, LTL
CEO	230,349	-
Director of Accounting department	141,667	-
Members of the Administration total	372,016	-

*Salaries for the activities at the LESTO Board for the Board members were not paid.
**LESTO has not transferred any assets to members of management bodies.

Agreements between the Issuer and members of its management bodies or employees providing for compensation in case of resignation or dismissal without a valid reason or of termination of work due to changes in the ownership of the Issuer

No such agreements between the Issuer and member of its management bodies or employees were made.

Strategy and goals

LESTO's long-term strategy for the year 2012-2020 projects company's aspiration to be effective, to use resources optimally, to serve customer's needs, and act as company that shares society's trust. By its actions LESTO strives to contribute to the goals set in the National Energy Strategy, as well as to the initiatives of the European Union to save energy, protect environment and to integrate into energy market, supply safe, reliant and accessible energy, dynamically adapt to ever-changing internal and external environment.

The company shall strive to increase its value by working in these directions:

- Increase efficiency in customer services;
- Create a modern organizational culture, apply up to date management methods, and increase efficiency in business processes;
- Reduce loss in an electrical grid, ensure connection of new customers and reliability of grid functioning;

Three priorities for activities are distinguished during the realisation of a long-term strategy:

- efficiency of activities
- technologies
- development of activities

Efficiency of activities

Over the following three years, special attention shall be paid to the growth of efficiency of activities. Forecasts reveal that innovative means for optimisation of activities that are planned for 2012 – 2020, will allow reduction of costs in such a way that adequate investments into the renovation of the electrical grid and its modernization will be made. At the same time clients of the company shall be granted the quality of services that is not lower than the average of the European Union. Plans are made for increasing efficiency of activities: business excellence programme, implementation of dispatch control system, centralization and optimisation of activities, delegation of certain services while acquiring services in the market, optimisation of electricity distribution network, rating of investments and others.

In view of growing consumer consciousness and rising quality expectations, electronic client services and information channels shall be strongly developed, while more and more services shall be provided in a customer friendly way.

Highly competent people and change-oriented organisational culture is necessary during major changes. Therefore programs of employer competence, efficiency, motivation and teamwork strengthening are being developed.

Technologies

After intensive optimization of activities, further development of electrical grid is possible by investing into modern technologies that are designed to reduce the loss in electrical grids: solutions of automation of electrical grids, modern control systems of disconnection and administration of electrical grid, modern engineering and technical solutions for electrical grid development and others. At this stage LESTO attributes great value to the benefits of new technologies as well as aims and shall aim to apply them in its activities.

Development of new technologies in electric energy sector shall be influential in all spheres of activities of the company - integrating power plants that produce energy from renewable sources into the electrical grid, installing smart meters and other.

Development of activities

While changes in organisation are taking place and competence of workers is increasing, creation of new services is considered to be an important priority of LESTO. By directing available high and specific competences of employers to the right direction, the company is planning to create and provide additional services. Potential can be seen in such services as “Electrician to your home“, development of electric cars charging network and others (depending on the needs of the market).

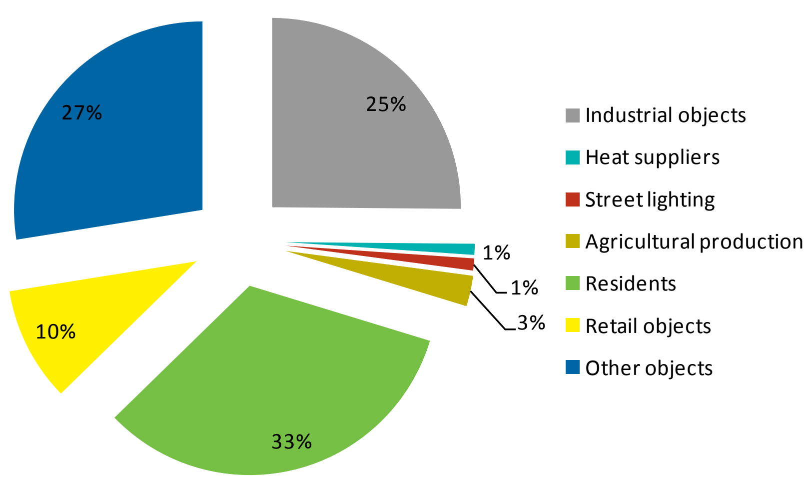
Electricity distribution network

Development and expansion of the activities

Activity indicators	2011
Amount of electricity received to the distribution network, million. kWh	8,562
Technological losses in the distribution network, million kWh	711
Volume of network service, million kWh	7,851
Amount of electricity sold, million. kWh	4,168
SAIDI, minutes (with “force majeure”)	302,57
SAIFI, times (with “force majeure”)	2,19

During the twelve months of 2011 the amount of LESTO network service reached 7,851 million kWh. Electricity sales made up 53.08% of this amount, to the rest customers LESTO granted only network service. Technological losses experienced by the Company amounted to 711 million kWh. During the twelve months of 2011 technological losses totalled to 8.3 %.

Structure of network service volumes by objects



One third of electricity network service volume was allocated to residents. Industrial and retail objects consumed 25% and 10% respectively. The structure of electricity network service during the reporting period of 2011 changed insignificantly compared to the nine months of 2011. The share of network service volume to the agricultural production increased by 1 % points, while the share of electricity serviced to other objects went down by 1 % points.

LESTO pays much attention to electricity network development and updating. This helps to provide the society with economic and social benefits, to increase the reliability and quality of electricity supply, to facilitate more rational use of energy, all this contributes to the Company's environmental policy.

In 2011, LESTO investments in electricity network expansion and modernization reached 295.4 million LTL. This was 10.7 per cent more compared to collective investment of AB “VST” and AB Rytų skirstomieji tinklai in the electricity network in 2010 (265.4 million LTL).

In 2011, the biggest increase (93.3 per cent) was in investment in the connection of electric equipment of new customers. Investment in 110/35/10 kV transformer substations and in the construction and reconstruction of 10 kV distribution subsections has increased by 15.6 per cent.

LESTO investment, LTL thousand

	2011	2010	Change, %	Structure, % 2011	Structure, % 2010
Investments in expansion	**156,593**	**87,334**	**79.3**	**53.0**	**32.9**
Connection of new customers	153,560	79,422	93.3	98.0	90.9
Buyout of electricity objects	3,033	7,912	-61.7	2.0	9.1
Investments in maintenance	**138,760**	**179,060**	**-22.1**	**47.0**	**67.1**
Low voltage electricity grid	74,720	88,171	-15.3	53.8	49.5
Medium voltage electricity grid	53,817	46,557	15.6	38.8	26.2
Other investments	10,223	43,332	-76.4	7.4	24.3
Total	**295,353**	**265,394**	**11.3**	**100**	**100**

The increase of investment in the connection of electric equipment of new customers was determined by the increased demand of newly connected permissible power. During 2011, LESTO has connected 16,852 objects of new customers, 7 per cent less than in 2010 when it had 18,120 customers connected, but the permissible power for new customers was equal to 265.4 MW, which is 32.9 per cent more than in 2010, when the permissible power was 199.7 MW.

In 2011, LESTO completed the reconstruction of eleven transformer substatins (TS) (110/35/10 kV TS in Vievis, Aleksotas, Joniškis, Kėdainiai, Rokiškis and Ukmergė, 110/10/6 kV Cukraus TS; 110/10 kV Ignalina TS; 35/10 kV TS in Biržai, Bazė and Antalieptė), and constructed five 10 kV distribution points, updated thirteen transfomer substations and eighteen distribution points. In 2011, LESTO constructed 958 new 10/0.4 kV transformer substations.

During the year, 3,533 new objects were connected to the Automated Electricity Metering System (AEMS), at the end of the year the total number of the connected objects reached 6,472.

In 2011, LESTO continued the redemption of networks of the gardeners communities in order to meet the rising demands for electricity consumption of the gardeners and the infrastructure maintenance needs and ensure reliable, safe supply of electricity and network upgrades. All networks have been redeemed by the natural state, the customers had individual electricity meters installed free of charge.

In 2011, LESTO redeemed 117 networks of the gardeners communities, 1.852 million LTL had been designated for this purpose. Most of the networks and facilities were redeemed in Kaunas region (63 objects or 56 per cent of the total number of the redeemed community networks in 2011). From the beginning of the redemption process of the power networks (in 2003) to December 31 2011, LESTO redeemed 882 power networks or 91 per cent of the networks of the gardeners communities. For this purpose LESTO has invested a total of 10.41 million LTL. During 2011, the gardeners communities had 34,457 meters installed, their value was 1.8 million LTL.

In order to renovate and update the networks of 76 gardeners communities last year LESTO applied for the support of the European Union Structural Funds. The renovation will need over 33 million LTL, the EU funds are asked to allocate 40 per cent of the required funds.

Implementing the project between AB LESTO and Lithuanian Ministry of Economy and Lithuanian Business Support Agency "AB LESTO distribution network development" signed on May 17 2011 on the funding and administration of the contract on electrification of not electrified homesteads in eastern Lithuania (the former territory of AB Rytų skirstomieji tinklai), all 50 homesteads paticipating in the project have been connected to the distribution network. The agreements on purchase and sales of electricity power were signed by the habitants of 43 homesteads.

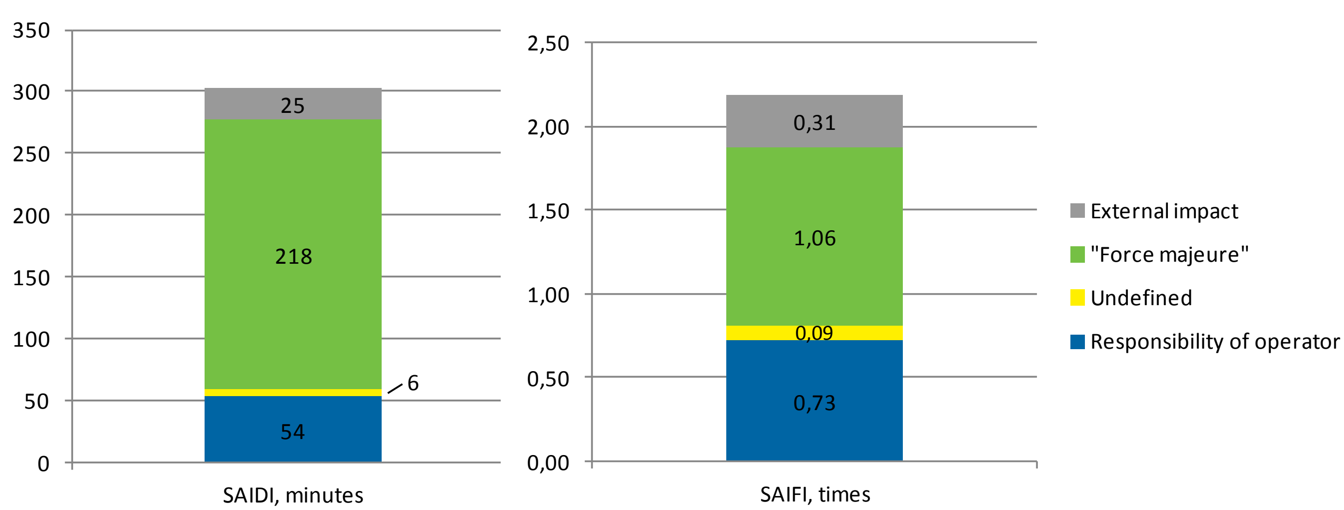
On July 13 2011, LESTO submitted an application to the Lithuanian Business Support Agency for the financial support of the EU Structural Funds for electrification of 31 not electrified homesteads in Western part of Lithuania. Project eligibility assessment shows that the maximum eligible cost of project is 2.333 million LTL. 40 per cent expenses of the project are supposed to be covered by the funds.

Quality of electricity supply (SAIDI, SAIFI)

In 2011, regardless of the influence of natural disasters ("force majeure") the system average interruption duration index (SAIDI) per customer was equal to 84.68 minutes, the system average interruption frequency index (SAIFI) per customer reached 1.12 times. In 2010, before the reorganization of the former AB Rytų skirstomieji tinklai, power supply quality indicators, regardless of natural disasters, were: SAIDI – 80.31 min and SAIFI – 0.98 times. The indicators of AB "VST" in 2010 were 86.47 min and 1.33 times, respectively.

In order to avoid damage of power air lines and any detriment during natural disasters, LESTO purposefully changes the air lines to underground cable lines. During the reporting period, 1,083.6 kilometers of new lines were laid, of which 1,012.9 km were underground (cable lines). During the year for the purpose of reconstruction 458.6 km of air lines were demolished, instead new cable lines were laid. Cable lines significantly reduce the number of failures during the operation, their maintenance is less expensive. Moreover having changed the airlines to the cables the landscape becomes more attractive.

Distribution network reliability indexes



LESTO personnel

The main asset of a company is its employees, the most important link when pursuing the set objectives. The Company's personnel policy is focused occupational training of the workers and culture development of organization, ensuring the creation of greater value for the customers, partners and society.

In 2011, LESTO while implementing the Network service strategy has carried out the transfer of a part of the LESTO-owned electricity network repair and maintenance services to the free market. The Company, in order to ensure that the staff that was directly engaged in electric power network repair and maintenance works receive all social guarrantees, which they had been guaranteed as LESTO employees, signed bilateral agreements with the successful procurement contractors on the basis of which 118 employees were transferred to new workplaces.

The number of employees of the company group

Company	Number of employees		Change, %
	12 31 2011	12 31 2010	
AB LESTO	2890	2985*	-3,2
NT Valdos, UAB	229	266**	-13,9***
UAB „ELEKTROS TINKLO PASLAUGOS“	445	440	1,1

*The employees of AB Rytų skirstomieji tinklai and AB “VST” transferred to LESTO on 01 01 2011,

**Total number of employees of NT Valdos, UAB and its subsidiary UAB “RYTRA”,

***Significant personnel changes occurred due to NT Valdos, UAB and its subsidiary UAB “RYTRA” merger during the reporting period.

Optimizing the management structure and separating indirect functions, the greatest decrease was in the number of managers and workers. The average number of AB LESTO employees in 2011 was – 2,787, with its subsidiaries – 3,481.

LESTO employees by categories

Category	Number of employees		Change, %
	12 31 2011	12 31 2010*	
Top-level managers	9	10	-10
Middle-level managers and specialists	2243	2213	1,4
Workers	638	762	-16,3
Total	2890	2985	-3,2

* The employees of AB Rytų skirstomieji tinklai and AB “VST” transferred to LESTO on 01 01 2011.

The structure of employees according to education was following: 48.1% employees had higher education, 26.5% had post-secondary education, 25.4% - secondary or specialised-secondary education.

Training

LESTO organizes three types of training courses. During formal and informal training sessions the employees improve their qualification and receive special work permit certificates. The employees participated in the trainings for construction managers and construction maintenance managers, workers, high-scalers, tree, shrub and branch reapers working in protection zones, and in other trainings. In 2011, the compulsory trainings envolved 1,384 employees.

The Company organizes staff trainings for general education competencies. These trainings are organized in groups within the company, as well as individual employees are sent to the seminars and conferences organized by external suppliers. In 2011, one of the principal policies of personnel management was the development of the leadership skills. According to the leadership development program, first of all there were defined the essential LESTO leadership competencies, then in accordance with the distinguished leadership competencies the training courses were organized for all levels of management. The second type of personel management in 2011 was effective customer service and successful selling of extra services. These trainings gathered the majority of customer service center managers and the engineers of power accounting groups.

In 2011, open trainings in Lithuania (external conferences, seminars) and abroad were attended by 129 employees. There were organized joint management trainings for internal employee groups; total number of participants was 1,931. In 2011, there were negotiation trainings for the specialists of purchases and customer service; 287 employees of the customer service staff participated in the trainings in the field of selling of extra services. There were the following trainings: communication, management/administration, emotional intelligence, "How to teach colleagues?", management of conflict situations.

The third type of LESTO trainings was internal training in the Company that were carried out by the employees themselves. At the beginning of the year, there was organized a series of lectures on internal IT systems (APAP, TEVIS, GIS, Biling, etc.). Internal trainers taught the employees the particularities of a qualitative customer service, how to fill in a certificate/act on energy consumption. From September, the employees who voluntary have registered for the internal training received the legal framework, effective leadership and communication training; there are other courses on 14 subjects. The internal training involved 920 participants.

In the course of preparation of the training programs and in order to ensure the quality of the training, close cooperation is promoted with training suppliers, ongoing training evaluation surveys are carried out.

Payment system

The introduced remuneration system has placed LESTO among other most innovative companies of the country that compensate their employees for work performed by the results achieved, the value created for the organization and the team. The remuneration system is formed by applying Hay Group methodology which guaranteed an objective job evaluation on the basis of appropriate education, problem complexity and level of responsibility that falls on a particular position. This system allows the Company to effectively manage the costs and ensures LESTO strategic objectives and business management logics be reflected in the payroll system.

Average wages of LESTO employees

Employee category	Average gross wage, LTL
	2011
Top-level managers	16,445
Middle-level managers and specialists	3,106
Workers	2,413
Total	2,986

Collective agreement

The collective agreement was passed at the Conference of LESTO employees on March 10, 2011. The purpose of this agreement is to ensure effective activities of the Company and represent the rights of all employees of the Company and their legitimate interests. The collective agreement specifies the scheme of remuneration of the employees, social, economic and occupational conditions and the guarantees that are not regulated by laws and other legal acts. The employees are offered additional guarantees (allowances in the cases of accidents, illness, death of immediate family members, birth of a child support, additional days of paid leave following the birth, marriage, and in other cases; higher payment rate for work on public holidays (when the work is not scheduled) than defined by the Labour Code).

Internship

LESTO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and practical skills and to acquire practical skills from the Company's employees. In 2011, LESTO received 147 students for their internship, two of them were foreigners. The Company received not only the student coming for the mandatory internship. The company was looking for motivated and enthusiastic students and provided the chosen ones with the opportunity to practice in the Company on a voluntary basis.

Customer service

Customer satisfaction

In 2011, LESTO customer satisfaction was rated by TRI*M methodology. Market research and consulting company TNS LT having questioned the LESTO clients found that the customer satisfaction index of LESTO private customers corresponds to the average European energy sector index (index 53), business customer satisfaction index was 50 and slightly behind the average of the European energy sector (53).
For comparison, in 2010 in Eastern Lithuania private customer satisfaction index was 51, and in the West - 49. In Eastern Lithuania in 2010, business customer satisfaction index was 52, in Western Lithuania – 46.

LESTO image and reputation

On November 24 –December 15, 2011, public research company RAIT carried out a study in which the poll of 1,002 residents of Lithuania and 504 corporate executives revealed that about 100 per cent of Lithuanian company managers and nine out of ten Lithuanian citizens (91 percent) know about LESTO.
LESTO is one of the few most valued infrastructure utilities companies in Lithuania. The study results showed that the majority (96 per cent) of Lithuanian population is satisfied with the power supply quality, of which 70 per cent are completely satisfied, 26 per cent are rather satisfied.

Pricing

In 2011, under approval of The State Commission for Prices and Energy, LESTO proposed private customers a possibility to choose from April 1, 2011 new tariff plans for electricity with a permanent component: the "Home" and "Home Plus". These plans in long perspective allow the clients to change the current pricing principles to more progressive. The new tariff plans with a fixed fee ensure the steady medium electricity price dependence on electricity consumption.
The new tariff plans were attractive to consumers who consumed about over 3,000 kWh of electricity per year (compared to a "standard" rate plan), or over 6000 kWh per year (compared to a “el. cookers " tariff plan). Having introduced new tariff plans, a more progressive method of payment has been proposed: each client receives a notice of payment (VAT invoice), which can be seen and paid for by the company's self-service site tools.

Market liberalisation

On December 31, 2011, the independant supplier was chosen by 3,558 clients. On July 8, 2009, the Government of the Republic of Lithuania approved the Lithuanian electricity market development plan. In accordance with the plan, on December 31, 2011 an independent electricity supplier has been chosen by the following objects:

- With permissible power of 400 kW and more – about 80 per cent;
- With permissible power 100 kW and more – about 54 per cent;
- With permissible power of less than 100 kW – 11 per cent.

The remaining objects are further supplied with the electricity by the public supplier.

New services

In 2011, the following projects have been completed and implemented:

1. New service for the population „An electrician to your home“. This service allows the LESTO customers to register any internal electricity breakdown by calling a short customer calling number 1802. Such information is transferred to LESTO partners that are engaged to remove breakdowns and present their reports to LESTO. This service is expected to improve customer service variety and increase the revenues from non-regulated activities.

2. New services for independent electricity suppliers. The main goal of these services is the implementation of energy market liberalization strategy.

The implemented project:
„Customer data service“. Independent suppliers can connect to the portal for Independent suppliers and see potential customers.

In 2011, LESTO was actively offering the customers the possibility to pay their bills by direct debit. In 2011 compared with 2010, the number of customers who opt for the payment by direct debit increased more than 8 times and amounted to 53,200.

Service channel development

In 2011, the main goal was to ensure a smooth customer service by all available channels: in customer service centers (CSC), on the website "My electricity", by customer service number 1802, by e-mail. LESTO in 2011 tried to provide the clients with all necessary information by means of all service channels.
Having finished the merger of the two distribution network companies, in 2011 in the field of customer service LESTO paid much attention to the conversion to the general process and information systems. The centralization and automation of the remote customer service processes has been developed. In 2011, the new LESTO customer service standard was defined and implemented.
One of the main priorities for 2011 was the update of customer contact data. If necessary, LESTO could promptly inform about scheduled disconnections of electricity, potential problems and provide other relevant information by SMS or e-mail. In 2011, the contact information in the database has been updated by 58 per cent of private customers and 79 per cent of business customers.

In 2011, LESTO signed more than 100 thousand electricity purchases and sales agreements with private customers and about eight thousand contracts with business customers. The number of the LESTO private customers made up more than 1.51 million and that of the business customers was equal to more than 61 thousand. After the redemption of the networks of the gardener communities and having installed individual electricity metering LESTO signed more than 35 thousand new power purchase and sales agreements.

- **Customer service centers**

The customers can be serviced in any client service center irrespective of the location of the object. Two or more objects can be covered by one purchase and sales agreement. In 2011, there were 51 LESTO customer service centers, their number did not change during the year.

- **Self-service site „My electricity“ and e-mail**

At the end of the year the number of the customers of the self-service site "My electricity" amounted to 168,500 units. In 2011, the average monthly attendance of self-service "My electricity" was 65 thousand visits. In total, 87% of business customers have chosen to receive electronic bills. In 2011, LESTO received 21,383 electronic requests of the customers.

In 2011, it became possible to introduce a function with information about the connection of a new user. The service provides with the possibility to see basic information about a newly connected object. In 2011, the emphasis was on a detailed assessment of customer needs in order to allow the customers to subscribe and to access all services in LESTO and receive them by a most convenient channel. The Company started a project on the service channel development for remote customers.

- **Customer service by 1802**

Customer service by 1802 was introduced for the customers of the former company AB “VST” who before the establishment of LESTO could not receive services by a short number. The services of this channel were developed, the quality of the information provided improved, information service by SMS (about routine maintenance works, specifications prepared or about direct debit agreements) was developed.

Projects and initiatives on social responsibility

LESTO is a member of the Global Compact initiated by the United Nations, and submits the annual progress report.

The main goal of LESTO social responsibility activities is to cultivate the skills of safe and rational use of electricity in the society, to contribute to the conservation of energy resources and their environmental impact, therefore all social responsibility activities initiated and carried out by LESTO contribute to these objectives.

The Company responsibility while acting in the market included responsible behavior in cooperation with all concerned: customers, suppliers, contractors, state agencies. Particular attention was paid to the company customer service quality; it expanded the spectrum of the services that help you save time and money. Work with customers was based on the principles of respect, understanding of their needs, professional and expeditious decisions.

LESTO implements three large-scale long-term projects on social responsibility: "Operation 2020", "To the extent required" and "Electro-Magic", they all are united by the involvement of active communities and target groups of the society.

“Operation 2020“

In 2011, LESTO continued the social initiative "Operation 2020". The long-term program is used to promote responsible behavior with electric network equipment and to reduce the negative outcome arising from irresponsible or malevolent behavior of the population.

The important part of "Operation 2020" was live meetings of LESTO staff with the local population of the regions, and a competition for them promoting to find ways how to solve the most pressing population problems related to security, updating of electric network or lighting, and how to increase public responsibility. In 2011, LESTO received 32 applications from 29 neighborhoods. Eight projects received 60 thousand LTL for the prize funds.

During the project, an anonymous trust line was made public in order to help clarify the power evaders or to inform about impaired network devices. The phone calls received on this line helped to recover almost 64 thousand LTL. At the end of 2011, the result of the electronic form "I want to declare" was equal to 11.5 thousand LTL, they were retrieved because of the reports of responsible population.

At the end of 2011, the public surveys showed that 96 per cent of population appreciated "Operation 2020". Seventy five per cent of the Lithuanian population was inclined to report the observed fraudulent use of electricity. 45 per cent of the population knows the number of LESTO confidence line. The heads of local neighborhoods: 83 per cent welcome the cooperation between LESTO and neighborhoods.

A Project on Rational Use of Electricity „To the Extent Required“

The project " To the extent required " is designated to promote and realize the ideas of rational use of energy resources in order to develop the traditions for a rational society. The aim is to find out rational energy consumption patterns in daily life and for business.

In previous years, the project focused on private customers who used electricity for domestic needs. In 2011, "To the extent required" concentrated on the business segment and secondary educational institutions.

In February, the Company organized the first conference on the rational use of energy for businesses enterprises and organizations. The conference was attended by some 200 participants. The "Green Protocol" was presented at the conference. This is the Company initiated voluntary agreement signed by the companies in which they confirm their knowledge of the ideas of the social initiative "To the extent required for the company" which promotes the rational use of electricity, they back up the ideas and promise to apply them in practice. At the end of 2011, "Green Protocol" was signed by 72 companies.

The project "To the extent required for SCHOOLS" was carried out in the Lithuanian schools. Its aim was to encourage educational institutions to use electricity more economically and to develop the habits of rational energy consumption.

During the project, in three standard schools of the country there was carried out the energy consumption survey, the recommendations were worked out, they could be used by other educational institutions. Conclusion: the largest amount of electricity is consumed by lighting facilities; you can save 50 per cent of it. The schools that had participated in the project were equipped with modern, up-to-date energy efficient lighting system models which considerably enhanced the lighting of the classrooms and reduced the costs (in total – in seven classrooms and one lobby). During the implementation of the project, the project partners invested about 100 thousand LTL.

The schools were active in the outdoor activities on the energy saving, non-traditional school days, drawing contests, lectures on rational use of electricity read by an expert and “Brain Battles" with the energy topic. The project is reflected in www.tiekkiekreikia.lt where the population can find the answers on rational use of electricity.

Educational Project for Children and Young People “Electro-Magic“

Youth-oriented educational initiative “Electro-Magic” is designed to educate children and young people on energy use, threats, and safety problems. The initiative aim is to encourage students to learn how to safely handle with electricity and electric facilities, to promote interest in responsible use of energy, environmental and sustainable development ideas. During the project LESTO cooperate with the Lithuanian schools and their communities, with the organization “Sustainable Development Initiative" which works in the field of sustainable development and environmental protection.

Long-term educational project aims to inform about the electric power and the risk arising from casual behavior with electricity or electrical devices and to promote interest in environmentally friendly technologies of the future. In the project site www.elektromagija.lt playful virtual characters tell about electricity, and children by playing interactive games acquire knowledge on safety, electricity threats and its potential.

In 2011, topical competitions of "Electro-Magic" were attended by over 600 participants, 65.6 thousand site -visitors reviewed the site more than 549 thousand times.

Environmental Projects

LESTO while implementing the environmental projects attempt to reduce the negative impact of energy facilities to people and the environment and to encourage a wider public participation in the initiatives. In the everyday activities, the Company encourages the application of the working tools which reduce labor expenditure and pollution, actively seeking for the ways how to reduce the negative impact of energy facilities to people and the environment.

LESTO invest in environmentally friendly modern technology. The company when operating electric facilities follow the provisions of legal acts and agreements of the Republic of Lithuania and international legislation.

Electronic document management system helps to reduce document management costs: all the documents in the system are managed and filed electronically. The employees of the Company are encouraged to print e-mail messages sent to the recipients only when necessary.

The Company aims to operate more environmentally friendly by reducing administration and document management costs, which are necessary for administration of paper bills. The Company encourages the customers to choose electronic bills instead of commonly used those of paper. Electronic document management and filing is less complicated, the account history is stored in the self-service site "My Electricity" and the customers receive notification on accounts via e-mail and make payment by connecting to the self-pay system on any computer. 85 percent of LESTO business customers at the end of 2011 were using electronic invoices.

In the course of the reconstruction of power substations, LESTO installs for storm drainage and oil collection facilities of the highest standards that no contaminants leak to the environment. When transformer substations are reconstructed, the obsolete and worn power transformers are replaced by those with reduced noise level, the outside noise level gets reduced. When installing the equipment, much attention is focused on the preservation of landscape and cultural heritage.

Natural heritage protection

LESTO together with the Lithuanian Ornithological Society and the Institute of Ecology for the Nature Research Center and the partners implement the project of the European Union Financial Instrument for the Environment LIFE + “The White Stork Protection in Lithuania”. The stork nests built on the electricity poles are not safe either to birds or to people. When the storks touch the electrical wires they often get fatally injured; and LESTO incur losses due to electrical leakage and breaks in wires.

Therefore, the aim of the project is to ensure the protection of the white storks by installing special platforms on electric poles which were safe for birds and airlines. During the project until the end of 2012, LESTO committed to install 3260 artificial stork nets on electricity poles, and the Ornithological Society to shape 500 stork nets, located on the roofs of buildings.

By the end of 2011, LESTO installed 1740 artificial stork nets on the air line poles.

Participation in public life

In 2011, more than 400 workers of LESTO participated in the social campaign “Let’s do it, 2011”. During the campaign which gives encouragement to environmental thinking, citizenship, social activity, strengthens local communities and people’s perception of parity, the LESTO volunteers together with other participants of the campaign cleaned up the environment of 25 cities of Lithuania: in Alytus, Kaunas, Klaipeda, Panevėžys, Šiauliai, Vilnius and Utena regions.

A professional day in 2011 was traditionally marked by the Open Day at Energy and Technology Museum. The general public was invited to visit the Energy and Technology Museum in Vilnius, where they could listen to the reports of the representatives of the power companies and the academic community on the energy system and the operation principles, new technologies and possibilities to apply them in Lithuania. The event was attended by 500 residents and guests of the city.

Oppinion Surveys

Each year, LESTO orders representative opinion surveys of the population and business that help find out how the company customers value LESTO activities and initiatives.

Electricity suppliers are valued by the companies most favorably among all regulated service providers. According to population survey data, electricity suppliers are also rated most favorably among all regulated providers. The estimates of both the companies and the population show that electricity suppliers are given the highest score, i.e. 7.2 out of 10. Among the most often indicated characteristics the customers of LESTO pointed out high quality service, concern for reputation and focus on the results.

48 per cent of the participants of the public opinion survey consider AB LESTO as socially responsible company (RAIT, 2011-11).

Responsibility

LESTO social responsibility activities and project reports are prepared each year in the Lithuanian and English languages, all of them cover the initiated and carried out projects and their results. The reports are published in the Company's site, where the documents are freely available to the general public: http://www.lesto.LTL/LTL/socialine-atsakomybe/socialines-atsakomybes-ataskaitos/1037

LESTO keep the public informed about the Company's projects and socially responsible activities, all is published in the media, as well as in the company's site www.lesto.lt. In 2011, LESTO distributed 102 press releases, of which one third was on the social responsibility activities.

Awards

In 2011, AB LESTO has received the Lithuanian socially responsible business award "The Debut of the Year" in nomination "The Most Community Oriented Company of the Year”.

In Europe Business Awards 2011" LESTO received a reputable certificate for the country's representation in the activities in the field of social responsibility.

Assessing the best communication campaigns in "European Excellence Awards 2011”, LESTO with the project on energy conservation "To the extent required” got to the finals, was among the top 5 in Europe.

In the site of Ministry of Economy "State-owned enterprises” AB LESTO is called a clear leader in social responsibility activities. http://vvi.ukmin.LTL/apieISA .

INFORMATION ON THE ISSUER'S SECURITIES AND AUTHORISED CAPITAL

Authorised capital structure

Type of shares	Number of shares	Nominal value, LTL	Total nominal value, LTL	Share in authorized capital, %
Ordinary registered shares	603,944,593	1	603,944,593	100,00

There have been no changes in the Company's share capital in the accounting period and the share capital amounted to LTL 603,944,593.
All shares of the Company are fully paid.

Rights and obligations granted by shares

All ordinary registered shares grant the same rights. Property and non-property rights are defined in the law, other legal acts and Articles of Association.

Information on major transactions of associated parties – indicate the value of transactions, the nature of relations among associated parties, and other information on transactions necessary to understand the Company's financial situation, if such transactions are significant or have been concluded in unusual market Conditions

Information on transactions of associated parties is provided in clause 29 of the notes to the audited consolidated annual financial statements for 2011.

Significant agreements to which the Issuer is a party and which would come into effect, change or would be terminated if the control of the issuer changed, as well as effects thereof, except in cases where revelation thereof would cause considerable damage to the issuer due to the nature of such agreements

The Company has not entered into significant agreements which would come into effect, change or would be terminated if the control of the issuer changed.

Harmful transactions made by the Issuer during the reporting period

Issuer did not make any harmful transactions during the reporting period.

Procedure for amending the Articles of Association

The General Meeting of Shareholders has the right to amend the Articles of Association of LESTO and its subsidiaries.

Restrictions on the transfer of securities

No restrictions are imposed on the transfer of LESTO securities.

Subsidiaries

On December 31, 2011, subsidiaries of AB LESTO (NT Valdos, UAB and UAB "Elektros tinklo paslaugos") had no directly or indirectly controlled share stakes in other companies.

Total number of shares acquired and the number and par value of own shares. Own shares as a percentage of the share capital

LESTO had no own shares prior to the accounting period and did not acquire any own shares in 2011.

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

The Company did not acquire or transfer its own shares in 2011.

Information on payment for own shares if these shares were acquired or transferred with charge

The Company did not acquire or transfer its own shares in 2011.

Reasons for acquisition of own shares in the accounting period

The Company did not acquire its own shares in 2011.

Shareholders

On December 31, 2011 the number of LESTO shareholders totalled – 7,739.
On January 1, 2011 number of LESTO shareholders amounted to 7,999.
Shareholders of AB Rytų skirstomieji tinklai and AB “VST” that owned shares on 27 December, 2010 became LESTO shareholders. According to reorganization terms, one AB “VST” share granted 68.21 of LESTO shares and one AB Rytų skirstomieji tinklai share – 0.71 of LESTO share.

LESTO number of shareholders according to countries, 2011-12-31

Country	Number of shareholders
Lithuania	7544
Russia	47
Belarus	38
Estonia	36
United States	19
Latvia	14
Other	41
Total	**7739**

Agreements between the shareholders which are known to the Issuer and due to which the securities transfer and/or voting rights may be subject to limitations

No agreements between the Company’s shareholders due to which the securities transfer and/or voting rights may be subject to limitations are known to the Company.

Restrictions on voting rights

No restrictions on voting rights are known to the Company.

Shareholders who owned more than 5 % of the issuer's authorized capital on 31 December, 2011.

Full names of the shareholders (names of companies, types, headquarter addresses, company register code)	Number of ordinary registered shares	Share of authorized capital, %	Votes granted by shares owned, %
Visagino atominė elektrinė, UAB Žvejų str.14, Vilnius, company reg. No. 301844044	499,026,209	82.63	82.63
E.ON Ruhrgas International Gmbh, Brüsseler Platz 1 45131 Essen, Germany HRB No 10974	71,040,473	11.76	11.76

Information on issuer's securities

On 17 January, 2011 LESTO shares were included in the Main List of NASDAQ OMX Vilnius. LESTO shares are not traded in other regulated markets.

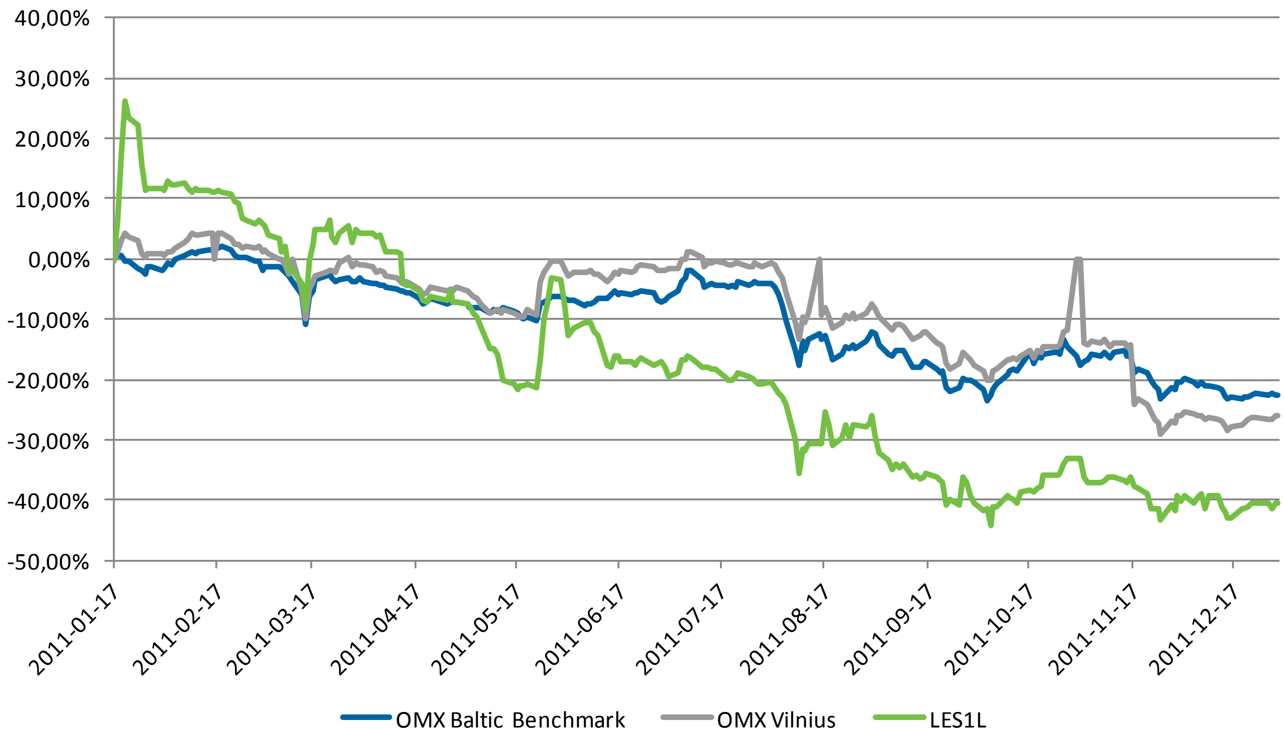
ISIN code	Trading list	Abbreviation of securities	Number of shares	Nominal value, LTL	Industry according to ICB standard	Supersector according to ICB standard
LT0000128449	BALTIC MAIN LIST	LES1L	603,944,593	1	7000 Utilities	7500 Utilities

LESTO share price dynamics and turnover, 31-12-2011

LESTO is one of the biggest companies by market capitalization in OMX Baltic securities exchange market. Start of trading in LESTO shares attained attention of large and small investors, within four trading days the price of LESTO share grew by

26.2 % and on 20 January, 2011 reached the highest point during the reporting period - LTL 4.09. When the initial attention cooled down, the share price was impacted by the negative events in the world's macroeconomics. LESTO share price reached the lowest point (LTL 1.81) on 5 October, 2011. During the reporting period LESTO share price dropped by 40.4 %. On 30 December, 2011, the last trading day in 2011, the price of LESTO share was LTL 1.93. The average price of LESTO share during the reporting period – LTL 2.64.

Dynamics of LESTO share price, OMX Vilnius and OMX Baltic Benchmark indexes, 31-12-2011



LESTO shares are included in both OMX Vilnius and OMX Baltic Benchmark indexes. Index OMX Vilnius consists of all the shares listed on the Main and Secondary lists of the Vilnius exchange market. The weight of LESTO shares in this index contains 17.02%.

OMX Baltic Benchmark index consists of a portfolio of the largest and most traded shares, representing all sectors available on the NASDAQ OMX Baltic Market. LESTO represents the utility sector. Since the beginning of trading in LESTO shares until the 30 December, 2011, the last trading day in 2011, index OMX Vilnius dropped by 26.05%, OMX Baltic Benchmark declined by 22.65%, while price of LESTO share decreased by 40,36 %. This fall was caused by negative events in Lithuania's and world's macroeconomics.

Dividends

On 29 April, 2011 the decision to pay dividends for shareholders was adopted in Ordinary General Meeting of Shareholders. Company's 2009 financial year distributable profit was 853,530 thousand LTL. Company's net annual operating result was -61,936 thousand LTL. Transfers to distributable profit (transferred depreciation without deferred income tax) was 253,468 thousand LTL, total distributable profit amounted 939,141 thousand LTL. Profit allocation to pay out dividends was 60,998 thousand LTL. Profit allocation to pay out dividends per share was 0.101 LTL.

LESTO securities account manager

“Swedbank”, AB is official manager of LESTO security account.

Contact details of Swedbank, AB:

Konstitucijos ave. 20 A, LT-03502 Vilnius

Tel. 1884, +370 5 268 4444, fax +370 5 258 2700.

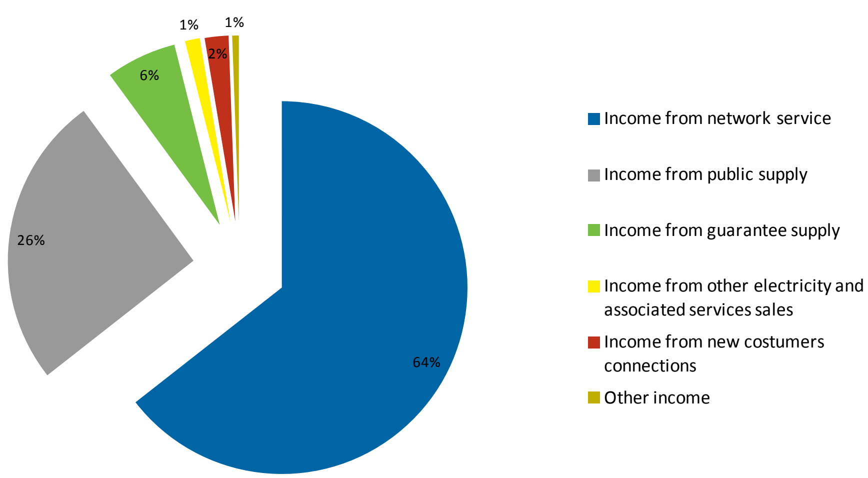
ANALYSIS OF PERFORMANCE RESULTS

Income, costs and profitability

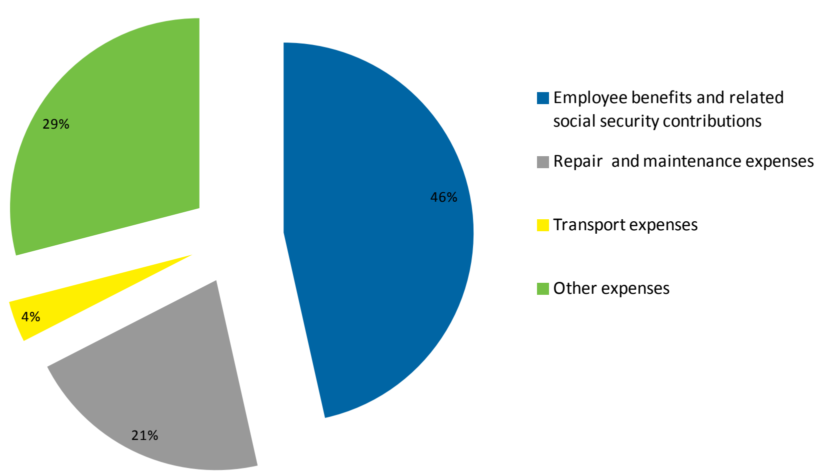
LESTO group profitability ratios	2011	2010
Net profit margin	-2.73 %	-2.57 %
Operating profit margin	-3.09 %	-2.90 %
EBITDA, LTL thousand	362,246	379,861
EBITDA margin	16.13 %	15.63 %
ROA	-1.16 %	-1.12 %
ROE	-1.68 %	-1.66 %

During the twelve months of 2011 LESTO group earned LTL 2 245.5 million, Company's income share made up 98.7% i.e. LTL 2 216.3 million. Comparing with 2010 LESTO group income decreased by 7.6 % due to the electricity market liberalization that caused drop of revenue from electricity sales.

LESTO income structure



LESTO operating costs structure



The main source of Company's income is income from network service that made up 64% of total income, income from public supply service consisted 26%, income from guarantee supply for the customers that have not chosen independent supplier amounted to 6 % of Company's income. Income from connection of new customers, other electricity and associated services and income form other sources made up only 4 %. During the reporting period, electricity purchase costs made up LTL 1 547.68 million i.e. 66.86% of total costs. Depreciation and amortization accounted to 18.64 % of total costs and the rest costs of the group that made up 14.50 % are classified as operating costs. In 2011 EBITDA of LESTO group reached LTL 362.2 million, EBITDA margin made up 16.13% of income. LESTO group experienced net loss of LTL 61.4 million during 2011. Net loss of the Company made up LTL 46.7 million.

Other financial ratios and investments

LESTO group liquidity ratios	31-12-2011	31-12-2010
Current liquidity ratio	0.53	0.53
Acid test ratio	0.51	0.52
Cash liquidity ratio	0.12	0.20
Working capital, LTL thousand	-251,258	-341,008
Working capital to total assets ratio	-0,05	-0.06

LESTO group financial leverage ratios	31-12-2011	31-12-2010
Total liabilities to total assets ratio	0.31	0.32
Debt to assets ratio	0.08	0.10
Total liabilities to equity ratio	0.45	0.48
Debt to equity ratio	0.12	0.14
Net financial debt, LTL thousand	381,020	394,793
Net financial debt to equity ratio	0.10	0.10
Long-term debt to equity ratio	0.09	0.06
Equity to total liabilities ratio	2.22	2.09
Equity to total assets ratio	0.69	0.68
Net financial debt to EBITDA ratio	1.05	1.04

The value of LESTO group assets at the end of reporting period made up LTL 5,283.5 million. Non-current assets share in total assets was equal to 94.56%. From the beginning of the year value of LESTO group assets shrank by 3.4 %. Short-term deposits and cash with cash equivalents accounted to LTL 63.7 million i.e. 22.2% of total current assets.

Equity of LESTO group exceeded liabilities 2.22 fold. At the end of reporting period, financial debts made up LTL 444.73 million or 27.11% of total liabilities. Non-current borrowings overweigh current borrowings by LTL 206 million. At the end of reporting period LESTO amounts payable within one year and current liabilities made up LTL 538.61 million.

Current liabilities exceeded current assets by LTL 252 million. Current liquidity ratio stood at 0.53. Inventories made up only 5.0 % of current assets, consequently acid test ratio do not differ significantly from current liquidity ratio. Financial debt reduced by the amount of the most liquid assets (short-term deposits and cash with cash equivalents) indicates net financial debt. Net financial debt of the LESTO group amounted to LTL 381.0 million and consisted only 10.5% of equity.

References and additional explanations of disclosures in the annual financial statements

Other information is presented in the Explanatory Notes to the Audited Financial Statements of AB LESTO for 2011.

RISKS AND RISK MANAGEMENT

Risk Concept

The objectives of the company's activity shall be understood in an extensive manner and shall cover the objectives of a general nature related to the vision, mission, values, and strategy of the Company as well as specific objectives related to implementation of the functions of individual structural divisions of the Company. In a wide sense the risk shall be perceived as a potential negative impact on implementation of the objectives of the Company and/or planned activity results.

Risks in the Company's Activity and Management Thereof

The main types of a non-financial risk which the Company encounters while carrying out its activity are as follows:

- strategic risk;
- technical and technological risk factors;
- operational risk;
- legal compliance risk;
- reputational risk.

Strategic Risk Management

Strategic risk occurs due to unfavourable or improper business decisions, improper implementation of said decisions or due to insufficient response to political changes or changes of the legal acts or energy sector. Occurrence of this risk is influenced by macroeconomic and political risk factors.

An important macroeconomic risk factor is the price of electricity production (or import) developing on the market. The price has a direct impact on the cost of electricity. The cost of public supply is controlled and fixed irrespective of the cost of electricity existing on the market at the time.

Since 2010 the process of liberalization of the electricity market has been well under way when consumers started to benefit from an opportunity to freely choose an independent electricity supplier. For this reason LESTO loses a part of its income from the supply. The Company is planning to mitigate this risk by seeking to compensate the income decrease by consistent increase of income from the non-controlled business activity. In Strategy Plan 2012-2020 the Company intends to achieve the result of not less than 10 percent of net income from non-controlled activity by the year 2020. The Company's income and profit from transmission and supply are directly dependent on the electricity transmission/consumption scopes. The macroeconomic situation of the country has a direct impact on the electricity sales trends, trends of connection of new consumers' electrical equipment and clients' solvency. This risk is managed in a conservative manner by means of planning electricity consumption and sales income.

When operating and expanding the distribution network LESTO buys equipment and materials the prices whereof depend on the market trends. The costs of LESTO network operation and investments to the grid, which have an impact on the LESTO financial results, are dependent on the prices of said goods. In order to optimise investments and costs for network operation and development the Company applies the investment rating method based on objective criteria compliant with the Company's priorities subject to the electricity distribution network operation and development.

Political risk factors are also taken into account. Electricity distribution and supply procedure is regulated by the Law on Electricity of the Republic of Lithuania. Amendments of said law and other related legal acts may affect the LESTO activity and results. The governmental policy regarding electricity prices is also significant. Service prices are controlled, price caps are set and controlled by the National Control Commission For Prices and Energy. Results of the LESTO activity depend on said decisions. In order to mitigate the effect of said risk on business results the Company analyses international practice of energy company control and, if necessary, presents proposals to national legislative drafting bodies.

Management of Technical and Technological Risk Factors

When distributing electricity, the grid is subjected to electricity losses. These losses depend on technical characteristics of the distribution network, its optimal use and management of risks related to other electricity losses in the network. The Company's management focuses on the management of electricity losses in the network; it has established the standing commission for managing electricity losses in the network which discusses the loss reduction measures and drafts short-term and long-term plans of electricity loss reduction.

One of the main factors describing the activity of the distribution network operator is reliability of electricity distribution assessed on the basis of the duration and frequency of disconnections per consumer. Due to unpredictable external factors such as natural disasters the following risks exist: reliable electricity supply may not be secured, LESTO will not receive planned income and elimination of relevant failures will result in additional operational costs. The Company has developed comprehensive emergency response procedures with respect to the management of said risk.

In order to increase the quality and reliability of supplied electricity LESTO intends to allocate a major part of its investments to renovation of distribution networks, reconstruction of electrical transformer substations and installation of new, long-term, modern electrical equipment compliant with the quality standards; LESTO looks for technological solutions which would help ensure continuous control of operating distribution network condition, prompt failure elimination and prevent electricity supply malfunctions.

Operational Risk Management

The business/operational risk is the risk subject to the decrease of losses and/or prestige loss/trust which may be affected by external factors (e.g. natural disasters, main suppliers‘ operational occurrences, etc.) or internal factors (e.g. IT system malfunctions, lack of internal control, inefficient procedures, improper assignment of functions or responsibilities, etc.).

The business/operational risk management is based on determination and assessment of a potential negative effect on the Company‘s structural divisions and/or results of business processes, installation of risk management means and regular risk control. Identification and assessment of the Company‘s business risks are carried out on a regular basis as established by the Company‘s management. Risks determined and assessed during this cycle the complex probability and effect assessment whereof exceeds the tolerance limit are subject to the risk management measures designed to mitigate residual risk to the tolerable limits. When managing the risk the Company‘s managers aim at implementing proper organizational measures, installing information systems which support procedural and business processes the integrity whereof must secure installation of an appropriate internal control system. The following main internal control elements are applied in the Company: comparing data on performed operations in the primary systems with operation data in the accounting system, separation of business decision making and controlling functions, operation performance and accounting control procedures, limits of authorizations to make decisions and control thereof, “four-eye” principles, adoption of collegial decisions subject to fundamental business processes, etc.

Legal Compliance Risk Management

The legal compliance risk is the risk subject to the decrease of losses and/or prestige loss/trust which may be affected by external factors (the Company‘s non-compliance with the requirements of legal acts of the Republic of Lithuania, the suppliers‘ failure to fulfill the contractual obligations, criminal acts of the third parties, etc.) or internal factors (e.g. actions of the Company‘s employees which are not compliant with the requirements of the Company’s internal regulations, actions of abuse or other illicit actions of the employees, etc.).

Legal and Administration Department is responsible for the legal compliance risk management. In order to mitigate the legal compliance risk the Company‘s lawyers participate in the processes of decision making, preparation of internal regulations and contract drafting jointly with the Company‘s management.

Reputational Risk Management

The Company seeks the highest reputational standards by carrying out the function of the electricity distributor, public and guarantee electricity supplier. This objective is reflected in the Company‘s mission, vision, strategic objectives and values. The managers of the Company focus on communicating the Company‘s mission, vision, values and strategic objectives to their employees. In addition, the Company is implementing a range of social projects which consolidate the image of the socially responsible Company.

Internal control system

On 3 March, 2011 shareholders of "Visagino atominė elektrinė", UAB made the decisions to form an Audit Committee, approved regulating documents and defined that Audit Committee covers "Visagino atominė elektrinė", UAB and it's directly and indirectly controlled companies, including LESTO. The main function of Audit Committee is to observe inner control, risk management and inner audit systems and their performance. Audit Committee also supervise the procedure of financial reporting etc.

LESTO has and Internal Audit Division established. The responsibility of this division includes systemic and through risk management and inner control, that help LESTO to achieve main goals.

ESSENTIAL EVENTS

In implementing its duties according to the binding legislation that regulates the securities market, LESTO announces material events (as well as all further regulated information) for the whole of the European Union. Information published by the Company is available on its website www.lesto.lt and the website of NASDAQ OMX Vilnius AB at www.nasdaqomxbaltic.com.

LESTO essential events over reporting period

Date	Essential event
17-01-2011	Regarding trading of AB LESTO shares on the Main list of NASDAQ OMX Vilnius.
20-01-2011	Regarding authorized stock account manager of the LESTO AB.
15-02-2011	Regarding change of AB LESTO licences for activities of the electricity distribution and electricity supply.
04-03-2011	Regarding the establishment of the Audit Committee of Visagino atominė elektrinė UAB.
01-04-2011	Notice Regarding Financial Indicators to be Achieved by LESTO AB in 2011 as Proposed by Ministry of Finance.
07-04-2011	Regarding of the Ordinary General Meeting of Shareholders of LESTO AB.
12-04-2011	Draft decisions of the Ordinary General Meeting of Shareholders of LESTO AB to be held on 29 April 2011.
29-04-2011	Decisions adopted in Ordinary General Meeting of Shareholders of LESTO AB on 29 April 2011.
29-04-2011	Annual information of VST AB and Rytu skirstomieji tinkai AB (2010).
18-05-2011	Social responsibility report of Rytu Skirstomieji Tinklai AB and VST AB of 2010.
25-05-2011	Regarding of the Extraordinary General Meeting of Shareholders of LESTO AB.
31-05-2011	Regarding of the Extraordinary General Meeting of Shareholders of LESTO AB.
31-05-2011	Regarding payout of dividends and inclusion of debt.
31-05-2011	LESTO AB results for three moths of 2011.
28-06-2011	Decisions adopted in Extraordinary General Meeting of Shareholders of LESTO AB.
22-07-2011	On changing charges for the power users electrical equipment connection to the electricity network
31-08-2011	Preliminary unaudited operating results of LESTO AB company group for the first half-year of 2011
24-10-2011	Regarding long-term loan agreement
24-10-2011	Regarding the electricity distribution price caps for 2012
27-10-2011	Regarding the supply service price cap for 2012

22-11-2011	Regarding prices of electricity distribution services and public electricity
25-11-2011	Regarding the approval of electricity distribution service and public electricity prices
30-11-2011	Preliminary unaudited operating results of LESTO AB company group for nine months of 2011
08-12-2011	Regarding of the Extraordinary General Meeting of Shareholders of LESTO AB

Events after financial statement formation date

1 January, 2012, 00 AM, the Company transfered non-current assets, which balance value was 708 thousand LTL, and inventories and other current assets, which value was 3,343 thousand LTL, to its subsidiary Elektros tinklo paslaugos, UAB for new shares issued according to share signing agreement, which was signed 23 December, 2011. Evaluation of transfered assets was made by Inreal UAB. After this contribution LESTO ownership has changed from 71.13% to 74.97%.

31 January, 2012 the share signing and payment by assets agreement was signed with NT Valdos, UAB. After that, NT Valdos UAB share capital was increased by 4,338 thousand LTL by issueing 43,381 ordinary registered shares. The Company purchased 5,591 shares of NT Valdos, UAB. For the shares the Company transfered non-current assests which balance value (same as real value) amounted 559,100 LTL. After the transaction LESTO ownership has changed from 57.93% to 57.30%. The other part of shares (37,790) was purchased by Lietuvos energija, AB, which paid by non-monetary contribution.

Other contractual agreements with auditors

Auditors, which conducted an audit of AB LESTO, also made equity accounting audit dated 1st January 2011, consolidated and the company's condensed interim financial information for the first half of 2011 (unaudited), provided training services and consulted on accounting issues of financial instruments.

Attachment to Annual Report

Form of disclosure of compliance with the Corporate Governance Code for companies listed on the regulated market

Following Part 3 of Article 21 of the Law on Securities of the Republic of Lithuania and Item 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, AB LESTO (in the comments hereinafter – the Company, LESTO) hereby discloses how it complies with the Corporate Governance Code for Companies Listed on the Regulated Market, as approved by the Board of AB NASDAQ OMX Vilnius, as well as with specific Principles of the Code. Where the Code or certain provisions thereof are not complied with, the non-complied provisions and the reasons for the non-compliance are specifically indicated.

PRINCIPLES / RECOMMENDATIONS	YES / NO / NOT APPLICABLE (NA)	COMMENT
Principle I. Basic Provisions **The key objective of the Company should be to operate in common interest of all the shareholders by ensuring continuous increase in the shareholder value.**		
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	The key trends for the Company's development and the strategic guidelines are made available on the Company's website, in the Company's annual and interim reports.
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	The Company's Board adopts the most important strategic decisions which determine the optimization of the shareholder value (optimization of the Company's business functions and structure, any other factors which make the Company's performance more efficient and which decrease its costs). The manager of the Company and the established by him/her Manager Council organize and execute the Company's economic and financial activities.
1.3. A company's supervisory and management bodies should act in close cooperation in order to attain maximum benefit for the company and its shareholders.	NA	The Company has no supervisory board, see the comment for Item 2.1. The Company sets up the Board which represents the shareholders' interests. The Company holds regular meetings of the Board where members of the Board are provided with information on the Company's performance on a regular basis.

1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (employees, creditors, suppliers, clients, and local community) involved in or related to the company's operation are duly respected.	Yes	The Company's management bodies respect the rights and interests of the persons involved in or associated with the Company's performance. 1. Ever since the Company's establishment, the Company has been cooperating and acting in social partnership with representatives of the Company's employees (allocates funds needed to perform under the Collective Agreement, to incentivize employees, etc.). 2. The Company fulfils the undertaken financial and any other liabilities to creditors. 3. Based on the findings of the client satisfaction research and the tendencies in the good international practice, the Company implements systemic means designed to improve the quality of servicing of the Company's clients. 4. The Company organizes social projects involving children, young people, local communities and other social groups. For more detailed information on the initiatives undertaken by the Company, please see the Company's website and the Annual Report.
Principle II. Corporate Governance Framework **The corporate governance framework should ensure strategic guidance of the Company, effective oversight of the Company's management bodies, appropriate balance and distribution of functions between the Company's bodies, protection of the shareholders' interests.**		
2.1. In addition to the obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general meeting of shareholders and a manager of the company, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. Setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability of and control over the manager of the company which, in its turn, facilitates a more efficient and transparent management process.	No	Based on the Company's Articles of Association, the Company has no supervisory board, but the board of directors (hereinafter – the Board) and the manager of the Company. To assist the manager of the Company in organizing and executing the Company's economic and financial activities, the Manager Council has been established. The Manager Council consists of the Chief Executive Officer and Directors in charge of the Company's divisions (with the exclusion of the Director in charge of Internal Audit Division).
2.2. A collegial management body is responsible for strategic management of the company; it also performs other key functions of corporate governance. A collegial supervisory body is responsible for effective supervision of the company's management bodies.	Yes No	The functions referred to in the Recommendation are performed by the Company's Board. The Company has no supervisory board;

		see the comment for Item 2.1.
2.3. Where a company chooses to form only one collegial body, it is recommended that this should be a supervisory body, i.e. the supervisory board. In such case, the supervisory board is responsible for effective monitoring of the functions performed by the manager of the company.	No	The Company has no supervisory board; see the comment for Item 2.1.
2.4. A collegial supervisory body elected by the general meeting of shareholders should be set up and should act in the manner defined in Principles III and IV. Should a company 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.[3]	Yes / No	The recommendations provided for in Principles III and IV are not implemented at the Company to their full extent; however, the Company complies with all the requirements, as per legal acts, for setting up of a collegial body. It should be noted that the Company is involved in distribution of electricity and provision of public supply services so, therefore, its operation is governed in strict compliance with legal acts and monitored by relevant state institutions (the National Control Commission for Prices and Energy, etc.). This way, transparent and efficient decision-making process is ensured; the principles of non-discrimination of the Company's consumers, reduction of the Company's costs and other principles are observed. The Company has no supervisory board; see the comment for Item 2.1.

[3] Provisions of Principles III and IV are more applicable to those instances when the general meeting of shareholders elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the manager and to represent the company's shareholders. However, in case the company does not form the supervisory board but the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of management bodies applies to the extent it concerns the oversight of the manager of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to giving of recommendations to the manager of the company; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting of shareholders from the company's management bodies is applied to the extent it concerns independence from the manager of the company.

2.5. A company's management and supervisory bodies should be comprised of such number of board members (executive directors) and supervisory board members (non-executive directors) that no individual or small group of individuals could dominate decision-making on the part of these bodies.[4]	Yes	Based on Article 32 of the Company's Articles of Association, the Board shall consist of 5 (five) members. The Company is of the opinion that such number of the Board members is sufficient because it ensures prompt and efficient decision-making process. The Board decisions are adopted at Board meetings. The Board may adopt decisions and its meeting shall be deemed held when at least 4 (four) members of the Board are present at the meeting. The Company has no supervisory board; see the comment for Item 2.1.
2.6. Non-executive directors or members of supervisory board should be appointed for specified terms subject to individual re-election at maximum intervals provided for in the Lithuanian legislation in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status. The possibility to remove them from office should also be stipulated; however; this procedure should not be easier than the removal procedure for an executive director or a member of a management body.	NA	The Company has no supervisory board; see the comment for Item 2.1. The Company's Board is elected for the term of 4 (four) years. The term of office of the Company's Board members is the maximum allowable by the Law on Companies of the Republic of Lithuania. The General Meeting of Shareholders may recall both the entire Board and individual members thereof prior to the expiry of their term.
2.7. Chairman of a collegial body elected by the general meeting of shareholders may be a person whose current or past office constitutes no obstacle for him/her to conduct independent and impartial supervision. Should a company decide not to set up a supervisory board but the board, it is recommended that the chairman of the board and the manager of the company should be a different person. Former manager of the company should not be immediately nominated as the chairman of a collegial body elected by the general meeting of shareholders. When a company chooses not to observe these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Company's Board and the Chairman of the Board are elected in compliance with the requirements set in the Law on Companies of the Republic of Lithuania. The manager of the Company has not been elected the Chairman of the Board.
Principle III. Order of Formation of Collegial Body Elected by General Meeting of Shareholders **The order of formation a collegial body elected by the general meeting of shareholders of the Company should ensure representation by the Company of minority shareholders, accountability of this body to the shareholders and objective monitoring of the Company's operation and its management bodies[5] .**		

[4] Definitions *'executive director'* and *'non-executive director'* are used in cases when a company has only one collegial body.

[5] Attention should be drawn to the fact that in the situation where the collegial body elected by the general meeting of shareholders is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person management body, i.e. the manager of the company. This note shall apply to item 3.1 too.

3.1. The mechanism of formation of a collegial body elected by the general meeting of shareholders (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.	Yes	The Company's Board is elected by the Company's General Meeting of Shareholders in compliance with the requirements set in the Law on Companies of the Republic of Lithuania.
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 meeting of shareholders so that the shareholders had sufficient time to decide on which candidate to vote. All factors likely to affect 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 a yearly basis, collect data provided in this Item on its members and disclose such in the company's annual report.	Yes / No	Information on the candidates for the Company's Board is usually presented to the shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders whose agenda includes consideration of the issue on election of the Board members; the information is not made public in advance. Based on Article 36 of the Company's Articles of Association, each candidate for the Board shall submit 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 a conflict of interests between the candidate and the Company. Upon emergence of new circumstances that may give rise to a conflict of interests between a member of the Board and the Company, the member of the Board shall immediately notify the Company and the Board of such new circumstances in writing (see also the comment for Item 7.1). Information on the offices held by the members of the Board or their involvement in any other companies is collected, accumulated and disclosed in the annual report as well as the Company's website.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by disclosure of information on the candidate's competences relevant to his/her service on the collegial body. In order shareholders and investors can verify if the competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of its individual members which are relevant to their service on the collegial body.	Yes / No	Information on the candidates for the Company's Board members is usually presented to the General Meeting of Shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders (see the comment for Item 3.2). The information presented at the General Meeting of Shareholders covers the professional experience of and offices/positions held by the candidates, also any other information evidencing a candidate's competence. Information on the offices held by the

		members of the Board or their involvement in any other companies is collected, accumulated and disclosed in the annual report as well as on the Company's website.
3.4. In order to maintain a proper balance in terms of qualifications possessed by members of the collegial body, the composition of the collegial body should be determined with regard to the company's structure and activities, and be 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. Members of an audit committee, as a whole, should have recent knowledge on and relevant experience in the fields of finance, accounting and/or audit for stock exchange listed companies. At least one of the members of a remuneration committee should have knowledge on and experience in the field of remuneration policy.	No No No	Pursuant to the Law on Companies of the Republic of Lithuania, in cases where no supervisory board is formed, the board shall be elected and the qualification of its members shall be evaluated at the general meeting of shareholders. The Board cannot determine its composition. The Company has no audit committee, see the comment for Item 4.14. The Company has no remuneration committee, see the comment for Item 4.13.
3.5. All new members of the collegial body should be offered a tailored program meant to familiarize a member with his/her duties, corporate organization and activities. The collegial body should conduct annual review to identify the fields where its members need to update their skills and knowledge.	Yes / No	Newly elected members of the Company's Board are provided with the possibility to meet managers of the Company's structural divisions, to get familiar with the Company's activities. It should be noted that members of the Board are regularly informed on the Company's activities at the Board meetings as well as individually, at the members' request.

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 be comprised of a sufficient[6] number of independent[7] members.	No	The Company's Articles of Association exclude the provision that certain number of independent members shall be elected members of the Board. Formation of the Board (and election of independent members to the Board) is subject to the competence of the participants of the General Meeting of Shareholders. At the moment of submission of the report, one of the five members of the Company's Board is a business representative not related to the enterprises and state institutions acting in the electricity sector and governing the activities within the electricity sector.
3.7. A member of the collegial body should be considered to be independent only if he/she is free of any business, family or other relationship with the company, its controlling shareholder or the management of either as this creates a conflict of interest likely to impair his/her judgment. Since all the cases when a member of the collegial body may become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices for solving of 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: He/she is not an executive director or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory board) of the company or any associated company and has not been acting in the capacity for the last five years; He/she is not an employee of the company or some associated company and has not been such for the last three years, except for the 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 employees;	No	The Company's Boar has not set any specific criteria for independence evaluation since there has been no need for such. See also the Comment for Item 3.6.

[6] The Code does not provide for a specific number of independent members to comprise a collegial body. Many codes in foreign countries fix a specific number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, with regard to the novelty of the institution of independent members in Lithuania and potential problems in finding as well as electing a specific number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[7] It should be noted that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

He/she is not receiving or has not been receiving significant additional remuneration from the company or any associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance-based pay systems; it does not include compensation payments for previous employment at the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 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); He/she does not have and has not had any material business relations with the company or any associated company within the past year directly or as a partner, shareholder, director or superior employee of the entity having such relationship. An entity is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; He/she is not and was not, during the last three years, a partner or employee of the current or former external audit company of the company or any associated company; 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 meeting of shareholders 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; He/she has not been in the position of a member of the collegial body for more than 12 years; He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory board) or to any person listed in items 1 to 8 above. A close relative is considered to be a spouse (cohabitant), children and parents.		
3.8. The meaning of the concept *independence* is fundamentally an issue for the collegial body to determine itself. The collegial body may decide that, even though a particular member meets all the criteria for independence laid down in the Code, he/she cannot	No	See the comment for Item 3.6.

be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body can be considered as 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 of the criteria for independence set out in the Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The key criteria for evaluation of the Board members' independence, as set out in this Recommendation, are not applied at the Company; therefore, no conclusions regarding evaluation of the Board members' independence have been disclosed so far.
3.10. When one or more criteria for independence, as set out in the Code, have not been met throughout a year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	See the comment for Item 3.9.
3.11. Members of the collegial body may be remunerated for their work and participation in the meetings of the collegial body from the company's funds[8]. The general meeting of shareholders should approve the amount of such remuneration.	NA	Members of the Company's Board are not remunerated for their work in the Company's Board from the Company's funds; therefore, the provision is not relevant to the Company.
Principle IV. Duties and Liabilities of a Collegial Body Elected by a General Meeting of Shareholders **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general meeting of shareholders, and the powers granted to the collegial body should ensure effective monitoring[9] of the Company's management bodies and protection of interests of all the Company's shareholders.**		

[8] It should be noted that currently it is not yet completely clear in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiemes) in the manner prescribed by Article 59 of the Law, i.e. from the company's profit. This wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiemes) should be the only form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

[9] See Footnote 3.

4.1. A collegial body elected by the general meeting of shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and control system. The collegial body should issue recommendations to the company's management bodies and monitor as well as keep control over the company's management performance.[10]	Yes	The Company-elected Board presents to the General Meeting of Shareholders proposals regarding the Company's annual financial reports, draft profit (loss) appropriation and the Company's annual report, provides its evaluation of the performance by the manager of the Company, and performs other functions assigned to the Board's competence.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interest 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 in cases when a member considers a decision of the collegial body to be against the interests of the company. Should a collegial body have passed decisions which an 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, to a respective body (institution) not-pertaining to the company.	Yes No	All members of the Board act in good will with respect to the Company, with due regard to the Company's interests and public welfare. It should be noted that, based on Article 46 of the Company's Articles of Association, a member of the Board shall have the right to express his/her opinion on all the issues included in the agenda of the meeting which is provided in the minutes of the Board meeting. Independence of the Board members shall not be subject to evaluation. See the comment for Item 3.6.
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 any other professional obligations of his/hers (in particular directorships held in other companies) in a manner such do not interfere with proper performance of the duties of a member of the collegial body. In the event a member of the collegial body has attended less than a half[11] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified thereof.	Yes	Members of the Board are active participants of the meetings of the collegial body and devote sufficient time to perform their duties as members of the collegial body. The Board members attending the meeting are listed in the minutes of the meeting. Article 37 of the Company's Articles of Association provides that members of the Board may perform other functions or take other positions, including but not limited to managerial positions in other legal entities, civil or statutory service, positions in the Company, the Company's parent company and other legal entities in which the Company is a participant or to which the Company is a parent company), only upon prior notice thereof to the Board.

[10] See Footnote 3. In the event the collegial body elected by the general meeting of shareholders is the board, it should provide recommendations to the company's single-person management body – the manager of the company.

[11] It should be noted that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body attended less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation at the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

4.4. Where decisions of the 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 for members of the collegial body in their communication with and commitment to the shareholders.	Yes	The shareholders are informed on the Company's strategy, risk management and resolution of conflicts of interest in accordance with the procedure prescribed by legal acts. The Board members' communication with and commitment to the shareholders shall be established following the requirements set in the Law on Companies of the Republic of Lithuania.
4.5. It is recommended that transactions (except insignificant ones due to their low value or those concluded when carrying out the company's routine operations under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal entities that exert or may exert influence on the company's management should be subject to approval by the collegial body. The decision concerning approval of such transactions should be deemed adopted only in case the majority of the independent members of the collegial body voted in favour of such decision.	No	The Company's management bodies conclude transactions and approve such by observing the requirements set in legal acts and the Company's Articles of Association. Independence of the Board members shall not be subject to evaluation; see the comment for Item 3.6.
4.6. The collegial body should be independent when passing decisions that are significant for the company's operations and strategy. In addition, the collegial body should be independent of the company's management bodies[12]. Members of the collegial body should act and pass decisions without any outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative (as well as financial resources) to discharge their duties including the right to obtain – especially from employees of the company – all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of consultants or specialists to obtain information on market standards for remuneration systems, the remuneration committee should make sure the consultant does not at the same time advise the human resources department, executive directors or collegial management bodies of the company.	Yes Yes No	When adopting decisions significant for the Company's operations and strategy, the Company's Board acts independently. The Company makes sure the Board is provided with the resources required for its activities (monitors technical aspects of the Board meetings, provides all the required information and performs other functions specified in the Board's Work Regulations). See the comment for Item 4.13.

[12] In the event the collegial body elected by the general meeting of shareholders is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the manager of the company.

4.7. Activities of the collegial body should be organized in a manner enabling independent members of the collegial body to have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas are considered to be issues related to nomination of the company's directors, determination of remuneration to directors, and control as well as assessment of the company's audit.	No	Independence of the Board members shall not be subject to evaluation; see the comment for Item 3.6.
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[13]. Companies should ensure that the functions attributable to 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 the reasons for its selection of the 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 be comprised of a small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets the composition requirements set for the committees and that adequate information is provided in this respect. In such case, the provisions of the Code pertaining to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No	The Company has none of the committees. The Company is of the opinion that the Board's work is effective enough and well organized; therefore, the Board may duly perform all the functions attributable to the committees itself. Pursuant to the Law on Audit of the Republic of Lithuania, a public interest entity which is a secondary enterprise and whose financial reports are subject to consolidation may default on the requirements to set up an audit committee, as prescribed by the Law on Audit of the Republic of Lithuania, in case its parent company has such. Because the parent company Visaginas Nuclear Power Plant Project has the Audit Committee, no separate audit committee is to be set up at the Company.
4.8. The key objective of the committees is to increase the efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work in the manner preventing the impact of material conflicts of interest on the collegial body's decisions. In their activities, the committees should exercise independent judgement and integrity, as well as present the collegial body with recommendations concerning the decisions to be made by the collegial body; however, the final decision shall be made by the collegial body itself. The recommendation on setting up of the committees is not meant to constrict the competence of the collegial body or to shift it onto the committees. The collegial body remains fully responsible for the decisions taken within the limits of its competence.	No	The Company has none of the committees. See the comments for Items 4.7, 4.12, 4.13, 4.14.

[13] The Law on Audit of the Republic of Lithuania (*Official Gazette*, 2008, No 82-53233) determines that an audit committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

4.9. Committees established by the collegial body should be composed of at least three members. At companies with a small number of members of the collegial body, such could exceptionally be composed of two members only. 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 refresh committee membership and by making sure that no individuals are excessively relied upon.	No	The Company has none of the committees. See the comments for Items 4.7, 4.12, 4.13, 4.14.
4.10. The authorities of each of the committees should be determined by the collegial body. The committees should perform their duties in line with the authorities delegated to them, and inform the collegial body on their activities and performance on a regular basis. The authorities of each committee stipulating the role, rights and duties of the committee should be made public at least once a year (as a part of the information disclosed by the company annually about its corporate governance structures and practices). Companies should also include in their annual reports the statements by existing committees on their composition, number of meetings and attendance over the year, also on their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The Company has none of the committees. See the comments for Items 4.7, 4.12, 4.13, 4.14.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of a committee should commonly have the right to participate in the meetings of a committee only if invited by the committee. A committee may invite or demand participation in the meeting by particular officers or experts. Chairman of each of the committees should have a possibility of direct communication with the shareholders. The events for such communication should be specified in the regulations governing the committee's activities.	No	The Company has none of the committees. See the comments for Items 4.7, 4.12, 4.13, 4.14.
4.12. Nomination Committee. 4.12.1. Key functions of a nomination committee should be the following: 1) Select and recommend for consideration by the collegial body the candidates to fill in the vacancies in the management bodies. 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 for the particular office, as well as assess the expected time	No	The Company has no nomination committee. See the comment for Item 4.7.

required to fulfil the commitment. A nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on a regular basis the structure, size, composition and performance of supervisory and management bodies, and make recommendations to the collegial body on the means to achieve the necessary changes; 3) Assess on a regular basis the skills, knowledge and experience of individual directors, and report on the assessment results to the collegial body; 4) Pay due attention to succession planning; 5) Review the policy of the management bodies regarding selection and appointment of senior management. 4.12.2. A nomination committee should consider the proposals put forward by other parties including the management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general meeting of shareholders is a supervisory board) and senior management, manager of the company should be consulted by entitling him/her to submit proposals to the nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of a remuneration committee should be the following: 1) Make proposals on the remuneration policy for members of management bodies and executive directors to be approved by the collegial body. Such policy should cover all forms of compensation, including 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 aimed at proper alignment of the pay to executive director and members of the management bodies with the long-term interests of the shareholders and objectives set by the collegial body; 2) Make proposals to the collegial body on individual remunerations to executive directors and members of management bodies in order their remunerations are consistent with the company's remuneration policy and the evaluation of the performance by these persons. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from other associated companies; 3) Ensure that individual remuneration to an executive director or member of a management body is proportionate to the remuneration to other executive directors or members of management bodies as well as other staff members of the company;	No	The Company has no remuneration committee. See the comment for Item 4.7.

4) Periodically review the remuneration policy for executive directors or members of management bodies (including the policy regarding share-based remuneration), and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts with executive directors and members of the management bodies; 6) Assist the collegial body in monitoring how the company complies with applicable provisions regarding disclosure of remuneration-related information (in particular, the remuneration policy applied and individual remuneration to directors); 7) Give general recommendations to executive directors and members of the management bodies on the level and structure of remuneration to the senior management (as defined by the collegial body itself), also monitor the level and structure of remunerations to the senior management with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. When dealing with stock options and other share-based incentives which may be awarded to directors or other employees, the committee should: 1) Consider the general policy regarding awarding of the above mentioned incentive schemes by focusing on stock options, and make any related proposals to the collegial body; 2) Examine the related information provided in the company's annual report and documents intended for use at a shareholder meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares by specifying the reasons for its choice as well as the consequences thereof. 4.13.3. When dealing with issues attributable to the competence of a remuneration committee, the committee should at least address the chairman of the collegial body and/or manager of the company for their opinion on the remuneration to other executive directors or members of the management bodies. 4.13.4. A remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting of shareholders for this purpose.		

4.14. Audit Committee. 4.14.1. Key functions of an audit committee should be the following: 1) Observe the integrity of the financial information provided by the company by focusing on the relevance and consistency of the accounting methods used by the company and its group (including the criteria for consolidation of the sets of financial reports of the companies in the group); 2) At least once a year, review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks related to compliance with effective laws and regulations) are properly identified, managed and disclosed; 3) Ensure the efficiency of internal audit functions by *inter alia* making recommendations on the selection, appointment, reappointment and removal from office of the head of internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to the department's conclusions and recommendations. In case there is no internal audit authority in the company, the committee shall consider the need for such at least annually; 4) Make recommendations to the collegial body in relation to selection, appointment, reappointment and removal from office of the external auditor (to be done by the general meeting of shareholders) and to the terms and conditions of the contract with the auditor. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on actions required in such situations; 5) Monitor the independence and impartiality of the external auditor by verifying in particular the audit company's compliance with the requirements for rotation of audit partners; the level of fees paid by the company to the audit company, and similar issues shall also be verified. In order to prevent material conflicts of interest, the committee, based on the auditor's disclosed *inter alia* data on all remunerations paid by the company and its group to the audit company and its network, should at all times monitor the nature and extent of non-audit services. With regard to the principles and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy defining the non-audit services purchase of which from an audit company is: (a) impermissible, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Ensure the efficiency of external audit process and responsiveness of the management to recommendations made in the external auditor's letter to the management. 4.14.2. All members of the committee should be	No	See the comment for Item 4.7. Pursuant to the Law on Audit of the Republic of Lithuania, a public interest entity which is a secondary enterprise and whose financial reports are subject to consolidation may default on the requirements to set up an audit committee, as prescribed by the Law on Audit of the Republic of Lithuania, in case its parent company has formed such. Because the parent company Visaginas Nuclear Power Plant Project has the Audit Committee, no separate audit committee is to be set up at the Company.

furnished with complete information on the particulars of accounting, financial and other operations of the company. A company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting may be open to different approaches. In this case, special consideration should be given to the company's operations in offshore centres and/or the activities carried out through special purpose vehicles (organizations) and justification of such operations/activities. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, manager of the company, chief financial officer (or superior employees in charge of finances and accounting), internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled to, whenever needed, meet any relevant persons without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with the management, but also with free access to the collegial body. For this purpose, an audit committee should act as a principal contact for internal and external auditors. 4.14.5. An audit committee should be informed on the internal auditor's work program and be furnished with reports on internal audit or periodic summaries. An audit committee should also be informed on the work program of the external auditor, and be furnished with the report disclosing all relationships between the independent auditor and the company as well as its group. The committee should be furnished with the information on all issues arising from the audit in a timely manner. 4.14.6. An audit committee should verify whether the company complies with applicable provisions regarding the possibility for employees to file complaints or anonymously report alleged suspicions of significant irregularities at the company (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of such issues and for appropriate follow-up actions. 4.14.7. An audit committee should report on its activities to the collegial body at least once every six months, at the time the yearly and half-yearly statements are approved.		

4.15. Each year the collegial body should assess its own activities. The assessment should include evaluation of the 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 working efficiency, and the verification of whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The Company's Board does not perform any official assessment of its own activities. The Company's performance and the Company Board's activities are evaluated by the Company's shareholders in the manner prescribed by legal acts.
Principle V. Working Procedure of Company's Collegial Bodies **The working procedure of supervisory and management bodies established in the Company should ensure efficient operation of these bodies as well as decision-making, and encourage active co-operation between the Company's bodies.**		
5.1. A company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers the collegial bodies of both supervision and management) should be chaired by chairmen of these bodies. The chairman of a collegial body is responsible for proper convocation of the collegial body meetings. The chairman should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. He/she should also ensure appropriate conducting of the meetings of the collegial body, as well as order and working atmosphere during a meeting.	Yes	Based on the provisions of the Company's Articles of Association as well as the Board's Work Regulations and the existing practice, the Recommendation has been implemented at the Company.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out at certain intervals, according to a schedule approved in advance. Each company is free to decide how often to convene meetings of its collegial bodies, but it is recommended that these meetings should be convened at such intervals which would guarantee an interrupted resolution of essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once a quarter, and the company's board should meet at least once a month.[14]	Yes	Based on Article 43 of the Company's Articles of Association, meetings of the Board of the Company take place at least once per calendar quarter. Following the Board's Work Regulations, at the beginning of each calendar year, the Board develops a schedule for regular Board meetings.

[14] The frequency of meetings of the collegial body provided for in the Recommendation must be applied in those cases when both additional collegial bodies are formed at the company – the board and the supervisory board. In case only one additional collegial body is formed at the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once a quarter.

5.3. Members of a collegial body should be notified about a meeting being convened in advance to allow them with sufficient time for proper preparation for consideration of the issues on the agenda of the meeting and to ensure fruitful discussion leading to appropriate decisions. Alongside the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to 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 at the meeting or certain issues of great importance to the company require immediate resolution.	Yes	Based on the Board's Work Regulations, members of the Board and invitees are notified of a meeting being convened 5 (five) days in advance of the meeting; they are also provided with all the materials required in relation to the issues on the agenda of the meeting.
5.4. In order to co-ordinate the activities of the company's collegial bodies and ensure effective decision-making process, chairmen of the company's collegial bodies of supervision and management should closely cooperate by coordinating dates of the meetings being convened, their agendas and when resolving other issues of corporate governance. Members of a 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.	NA	The only collegial body at the Company is the Board; therefore, coordination between collegial bodies is irrelevant.
Principle VI. Equitable Treatment of Shareholders and Shareholder Rights **The corporate governance framework should ensure equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that a 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.	Yes	The Company's authorized capital consists exclusively of ordinary registers shares of the nominal value of 1 Litas which (shares) grant their holders equal property and non-property rights.
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.	Yes	The rights granted by the shares are specified in the Company's Articles of Association which are posted on the Company's website.

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 meeting of shareholders[15]. All shareholders should be furnished with equal opportunity to get familiar with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The Company's transactions are concluded in accordance with the procedure established in the Law on Companies of the Republic of Lithuania and the Company's Articles of Association.
6.4. The procedures for convening and conducting of general meetings of shareholders should ensure equal opportunities for shareholders to participate at the meetings, and should not prejudice the rights and interests of the shareholders. The selected venue, date and time of the general meeting of shareholders should not hinder active attendance of the shareholders.	Yes	The Company convenes General Meetings of Shareholders and implements other meeting-related procedures in accordance with the procedure established in the Law on Companies of the Republic of Lithuania.
6.5. In order shareholders living abroad could exercise the right to get familiar with the information, it is recommended, whenever possible, that documents prepared for the general meeting of shareholders should be placed on the publicly accessible website of the company not only in the Lithuanian language, but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders, upon signing them, and/or the adopted resolutions should also be placed on the publicly accessible website of the company in the Lithuanian and English languages and / or in other foreign languages. Documents 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.	Yes	The Company notifies of a General Meeting of Shareholders being convened and presents to shareholders any other documents pertaining to the General Meeting of Shareholders being convened in the manner and under the terms prescribed in the Law on Companies of the Republic of Lithuania. Decisions adopted at a General Meeting of Shareholders are posted on the Company's website in the Lithuanian and English languages.

[15] The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-term assets accounting for more than 1/20 of the company's authorised capital to the competence of the general meeting of shareholders. However, transactions that are important and material for the company's activity should be considered and approved by the general meeting of shareholders. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria for material transactions which are subject to the approval by the meeting. While establishing these criteria for material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of Paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

6.6. Shareholders should be provided with the possibility to vote in a general meeting of shareholders in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing a general voting ballot.	Yes	The Company's shareholders may exercise their right to attend the General Meeting of Shareholders both in person and by delegating a proxy in case the latter has been delegated due authorisations or an agreement on disposal of the voting right has been concluded with him/her in accordance with the procedure prescribed by legal acts. The Company does provide its shareholders with the possibility to vote by completing a general voting ballot, as per the Law on Companies of the Republic of Lithuania.
6.7. In order to increase the shareholders' opportunities to participate at shareholders meetings, companies are recommended to expand the use of modern technologies and, thereby, allow the shareholders to participate and vote at general meetings of shareholders via electronic means of communication. In such cases, security of transmitted information and a possibility to determine the identity of the participating and voting person should be guaranteed. Moreover, companies could provide their shareholders, especially those living abroad, with the possibility to watch shareholder meetings by means of modern technologies.	No	At the time being, the Company is of the opinion that there is no need for voting by means of telecommunication facilities, besides, this would require considerable investments. However, once requested by the shareholders and when reasonably possible, the Company would make it possible for the shareholders to vote by means of telecommunication facilities.
Principle VII. Avoidance and Disclosure of Conflicts of Interest **The corporate governance framework should encourage members of the Company's corporate bodies to avoid conflicts of interest and assure transparent as well as effective mechanism of disclosure of conflicts of interest regarding members of the Company's corporate bodies.**		

7.1. A member of a 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 situation did occur, the 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 the company's shareholders about the situation of a conflict of interest, indicate the nature of the conflict and the value, where possible.	Yes	The Company does observe the recommendations. Article 36 of the Company's Articles of Association provides that each candidate for the Board shall submit 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 conflict of interests between the member of the Board and the Company, the member of the Board shall promptly notify the Company and the Board of such new circumstances in writing. In addition, Article 37 of the Company's Articles of Association specifies that Members of the Board may perform other functions or take other positions including, without limitation, managerial positions in other legal entities, civil or statutory service, positions in the Company, the Company's parent company and other legal entities in which the Company is a participant or to which the Company is the parent company), only upon prior notice thereof to the Company's Board.
7.2. A member of a company's supervisory and management body may not mix the company's assets, use of which has not been specifically agreed upon with him/her, 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 consent thereto of the general meeting of shareholders or any other corporate body authorized by the meeting.	Yes	The Company does observe the recommendations.
7.3. Any member of a 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 transaction (except for insignificant ones due to their low value or those 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	The Company does observe the recommendations.

7.4. Any member of a 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.	Yes	Based on Part 6 of Article 35 of the Law on Companies of the Republic of Lithuania, a members of the Company's Board shall not be entitled to vote when the meeting of the Board discusses the issue related to his/her work on the Board or the issue of his responsibility. In addition, based on legal acts, members of the Company's corporate bodies shall avoid the situation where their personal interests are or may be in conflict with the Company's interests.
Principle VIII. Company's Remuneration Policy **The remuneration policy and procedure for approval, revision and disclosure of directors' remuneration, as established in the Company, should prevent potential conflicts of interest as well as abuse in determining remuneration to directors; in addition, it should ensure publicity and transparency both of the Company's remuneration policy and the remuneration to directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easy to understand. This remuneration statement should be published not only as a part of the company's annual report buts also posted on the company's website.	No	Based on the practices observed at the Company, no remuneration policy and procedure for approval, revision and disclosure of the remuneration to directors, as well as no statement on the Company's remuneration policy is developed at the Company. This is not required under legal acts. General information on the Company's remuneration policy and average remuneration to individual employee groups is disclosed in the Company's annual report. Based on Part 5 of Article 25 of the Law on Energy of the Republic of Lithuania, the Company discloses the remuneration set for members of the Company's management bodies and any other payments related to management body members' functions.
8.2. A remuneration statement should mainly focus on directors' remuneration policy for the following and, if appropriate, the subsequent financial years. The statement should also overview the implementation of the remuneration policy in the previous financial year. Special attention should be paid to any significant changes in the company's remuneration policy in comparison to the previous financial year.	No	See the comment for Item 8.1. The Annual Report does not include the Company's directors' remuneration policy for the following and subsequent years. The Annual Report provides information on the monetary amounts calculated for the members of the Company's management bodies (remunerations, other payments, tantiems, and other payables from the profit).

8.3. A remuneration statement should at least include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance evaluation criteria that entitle directors to share options, shares or variable components of remuneration; 3) An explanation of how the selected performance criteria contribute to the long-term interests of the company; 4) An explanation of the methods applied to determine whether the performance evaluation criteria have been fulfilled; 5) Sufficient information on the periods of deferment of a variable component of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main criteria for awarding of and rationale for any annual bonus scheme and for any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information on the period of vesting of the rights to share-based remuneration, as referred to in Item 8.13; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in Item 8.15; 11) Sufficient information on the composition of similar groups of companies whose remuneration policy has been examined when establishing the remuneration policy for the company concerned; 12) A description of the main characteristics of the supplementary pension or early retirement schemes for directors; 13) A remuneration statement should not include any commercially sensitive information.	No	See the comment for Item 8.1. The Annual Report provides information on the monetary amounts calculated for the members of the Company's management bodies (remunerations, other payments, tantiems, other payables from the profit), the information on property/assets assigned and guarantees granted to members of the bodies, also any other information related with remuneration to members of the bodies.
8.4. A remuneration statement should also summarize and explain the company's policy regarding the terms of the contracts concluded with executive directors and members of the management bodies. It should include *inter alia* the information on the duration of contracts with executive directors and members of the management bodies, the applicable notification periods and detailed information on termination payments and any other pays linked to early termination of contracts with executive directors and members of the management bodies.	No	See the comment for Item 8.1.

8.5. A remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, awarded to individual directors over the relevant financial year. This document 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. 8.5.1. The following remuneration and/or work compensation related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services provided during the previous financial year inclusive of, where relevant, attendance fees fixed by the annual general meeting of shareholders; 2) The remuneration and advantages received from any enterprise belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were awarded; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each executive director or member of the management body upon his/her resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than those covered in items 1 to 5 above. 8.5.2. As regarding shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the previous financial year, and the conditions for exercise; 2) The number of share options exercised during the previous financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of the existing share options intended for the coming financial year. 8.5.3. The following information related to supplementary pension schemes should be disclosed: 1) Where the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under the scheme during the relevant financial year; 2) Where the pension scheme is a defined-contribution scheme, detailed information on contributions paid or	No	See the comment for Item 8.1.

payable by the company in respect of the director during the relevant financial year. 8.5.4. The statement should also provide the amounts that the company or a subsidiary company or an entity included in the company's set of consolidated annual financial reports 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 any outstanding amounts and interest rate.		
8.6. Where a remuneration policy provides for variable components of remuneration, the companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to enable the company to withhold the variable part of remuneration in cases of failure to meet the performance evaluation criteria.	No	See the comment for Item 8.1.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance evaluation criteria.	No	See the comment for Item 8.1.
8.8. Where a variable component of remuneration is awarded, the major part of the variable remuneration component should be deferred for a reasonable period of time. The amount of the variable component subject to deferment should be determined in relation to the relative weight of the variable component by comparing such to the non-variable component of remuneration.	No	See the comment for Item 8.1.
8.9. Contractual arrangements with executive directors or members of management bodies should include a provision that permits the company to reclaim the variable component of remuneration that was awarded on the basis of the data which subsequently proved to be manifestly misstated.	No	See the comment for Item 8.1.
8.10. Termination payments should not exceed a fixed amount or fixed number of annual remunerations, and should, in general, not be higher than two-years' non-variable component of remuneration or the equivalent thereof.	No	See the comment for Item 8.1.
8.11. Termination payments should not be paid when the termination is due to poor performance.	No	See the comment for Item 8.1.

8.12. The information on preparatory and decision-making processes, during which the policy of remuneration to directors is established, should also be disclosed. The information should include the data, if applicable, on the authorities and composition of the remuneration committee, names and surnames of external consultants whose services were used when establishing the remuneration policy, as well as the role of the annual general meeting of shareholders.	No	See the comment for Item 8.1.
8.13. In cases where remuneration is based on awarding of shares, the right to shares should not be vested for at least three years after their award.	No	See the comment for Item 8.1.
8.14. Share options or any other rights 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 the right to shares and the right to exercise share options or any other rights to acquire shares or to be remunerated on the basis of share price movements should be subject to predetermined and measurable performance evaluation criteria.	No	See the comment for Item 8.1.
8.15. After vesting, directors should retain certain number of shares through to the end of their mandate, depending on the need to finance any costs related to acquisition of shares. The number of shares to be retained should be fixed; for example, twice the value of the total annual remuneration (the non-variable plus the variable components).	No	See the comment for Item 8.1.
8.16. Remuneration to non-executive directors or members of supervisory board should not include share options.	No	See the comment for Item 8.1.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings of shareholders and vote on issues regarding directors' remuneration.	No	See the comment for Item 8.1.
8.18. Without prejudice to the role of the bodies responsible for setting of directors' remunerations, the remuneration policy or any other significant change in the remuneration policy should be included into the agenda of the annual general meeting of shareholders. The remuneration statement should be put forward for voting in the annual general meeting of shareholders. The vote may be either mandatory or advisory.	No	See the comment for Item 8.1.

8.19. The schemes for remuneration to directors in shares, share options or any other rights to acquire shares or be remunerated on the basis of share price movements should be approved with a resolution of the annual general meeting of shareholders adopted prior to exercising the above. The approval of the scheme should deal with the scheme itself, and the shareholders should not decide on share-based benefits awarded to individual directors under the scheme. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their exercise; the approval resolution should be adopted at the annual general meeting of shareholders. In such cases, shareholders should be notified of all the terms of suggested changes and get an explanation on the impact of the suggested changes.	No	See the comment for Item 8.1.
8.20. The following issues should be subject to approval by the annual general meeting of shareholders: 1) Awarding of directors with remunerations under share-based schemes, including share options; 2) Determination of maximum number of shares and main conditions for share granting; 3) The term within which options can be exercised; 4) The conditions for each subsequent change in the price of exercise of options, if permitted by law; 5) Any other long-term incentive schemes for directors which are not available to other employees of the company under similar terms & conditions. The annual general meeting of shareholders should also set the deadline within which the body responsible for the remuneration to directors may award compensations listed in this Item to individual directors.	No	See the comment for Item 8.1.
8.21. Should national law or the company's articles of association allow, any discounted option arrangement entitling the subscription of shares at a price lower than the market price prevailing on the day of the price determination, or the average market price determined a few days in advance of the date when the exercise price is determined, should also be subject to the shareholders' approval.	No	See the comment for Item 8.1.
8.22. Provisions of Items 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to the company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved by the annual general meeting of shareholders.	No	See the comment for Item 8.1.

8.23. Prior to the annual general meeting of shareholders which is to consider the resolution stipulated in Item 8.19, the shareholders should be provided the possibility to get familiar with the draft resolution and the related notice (the documents should be posted on the company's website). The notice should contain the full text regarding the share-based remuneration schemes or a description of the key terms of the schemes, as well as full names of the participants in the schemes. The notice should also specify the relationship between the schemes and the overall remuneration policy of the directors. The draft resolution should have an express reference to the scheme itself or contain the summary of its key terms. Shareholders should also be presented with the information on how the company intends to procure the shares required to meet its obligations under the incentive schemes. It should be clearly stated whether the company intends to buy the required shares on the market, hold the shares in reserve or issue new ones. The statement should also view over the scheme-related expenses. The information given in this Item must be posted on the company's website.	No	See the comment for Item 8.1.
Principle IX. Role of Stakeholders in Corporate Governance **The corporate governance framework should recognize the rights of stakeholders, as established by law, and encourage active co-operation between the Company and stakeholders in creating the Company's value, workplaces 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.**		
9.1. The corporate governance framework should assure that the rights of stakeholders which are protected by law are respected.	Yes	The Company's corporate governance framework assures that the law-protected rights of the stakeholders are respected.
9.2. The corporate governance framework should make it possible 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.	Yes	The Company does observe the recommendations. For example, consultations, negotiations, meetings and discussions are held with representatives of the Company's employees regarding the business optimization processes implemented at the Company. Based on the Company's Collective Agreement signed with representatives of the Company's employees, the Company shall inform representatives of the trade unions on the changes intended at the Company, the financial situation of the Company, etc. Stakeholders may get involved in the Company's management to the extent prescribed by law.

9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company does observe the recommendations.
Principle X. Information Disclosure **The corporate governance framework should ensure timely and accurate disclosure of all material information regarding the Company, including the financial situation, performance and governance of the Company.**		
10.1. A company should disclose information on: 1. The company's performance and results; 2. The company's objectives; 3. Persons holding by right of ownership or controlling of a block of shares in the company; 4. Members of the company's supervisory and management bodies, manager of the company and their remuneration; 5. Foreseeable material risk factors; 6. Transactions between the company and related 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 structure 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	The Company's annual report discloses information on the shareholders holding by right of ownership more than 5 percent of the issuer's authorized capital. The Company's annual report discloses information on members of the management bodies and the manager of the Company. Based on Part 5 of Article 25 of the Law on Energy of the Republic of Lithuania, the Company discloses the remuneration set for members of the Company's management bodies and any other payments related to management body members' functions. The information referred to in items 4 and 6 of this Recommendation is disclosed to the extent required under legal acts currently in effect and the requirements for development of annual financial reports. The Company discloses the information referred to in this Recommendation (with the exception of items 4 and 6 hereof) in the following ways: 1) in the manner prescribed by law for announcing material events (e.g. election of new members of management bodies, the Company's financial results); 2) on the Company's website (e.g. the Company's business objectives); 3) in the annual report (e.g. members of the Company's management bodies, foreseeable material risks).
10.2. When disclosing the information specified in item 1 of Recommendation 10.1, it is recommended to the company, which is a parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed.	Yes	The Company discloses information on consolidated performance results of the entire group of companies (i.e. LESTO and its subsidiaries).

10.3. When disclosing the information specified in item 4 of Recommendation 10.1, it is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, manager of the company, as well as any potential conflicts of interest that may have an effect on their decisions should be disclosed. 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 manager of the company, as per Principle VIII.	Yes	This information is provided in the Company's annual report and on the Company's website. Based on Part 5 of Article 25 of the Law on Energy of the Republic of Lithuania, the Company discloses the remuneration set for members of the Company's management bodies and any other payments related to management body members' functions.
10.4. When disclosing the information specified in item 7 of Recommendation 10.1, 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, schemes of employee participation in the company's share capital, etc. should be disclosed.	Yes	The information specified in item 7 of Recommendation 10.1 is disclosed to the extent required under legal acts of the Republic of Lithuania currently in effect. The information on the relations between the Company and the stakeholders is disclosed in press releases and on the Company's website.
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 the 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 the Vilnius Stock Exchange so that all the company's shareholders and investors had equal access to the information and could make informed investing decisions.	Yes	The Company discloses the information via the information disclosure system used by the Vilnius Stock Exchange in the Lithuanian and English languages both at a time. The Company observes the recommendation and announces its material events before or after a trading session on the Vilnius Stock Exchange, except for the cases provided for by legal acts. The Company does not disclose the information likely to impact the price of the issued by it securities in its comments, interviews or otherwise by the time such information is announced via the information system of the Stock Exchange.

10.6. The channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies, for instance, placing of information on the company's website, should be employed for wider dissemination of information. 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	In addition to the method of information disclosure referred to Item 10.5, the Company uses a number of other means (the electronic edition for public announcements of the State Enterprise Center of Registers, news agencies, the publicly accessible internet website of the Company); all this is meant to ensure that the being-disseminated information reached as many as possible persons/entities concerned. The information disclosed on the Company's website is provided in the Lithuanian and English languages.
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 also suggested for a company to 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.	Yes	The Company discloses on its website all the information specified in this Recommendation.
Principle XI. Selection of the Company's Auditor **The mechanism of selection of the Company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. Annual audit of a 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.	Yes/No	The Company's annual financial statements and the annual report are subject to independent audit. Audit firm also checks if financial information of consolidated annual report matches audited financial statements. The review of interim financial statements is made by audit firm.
11.2. It is recommended that a company's supervisory board and, where it is not set up, a company's board should propose a candidate firm of auditors to the general meeting of shareholders.	Yes	Upon an audit firm selected, the Company's Board proposes such to the General Meeting of Shareholders.
11.3. It is recommended that a company should disclose to its shareholders the fee paid to the firm of auditors for non-audit services rendered to the company. This information should also be known to the company's supervisory board and, where it is not formed, the company's board for its consideration of which firm of auditors to propose for the general meeting of shareholders.	Yes	The Company does observe the recommendations.