

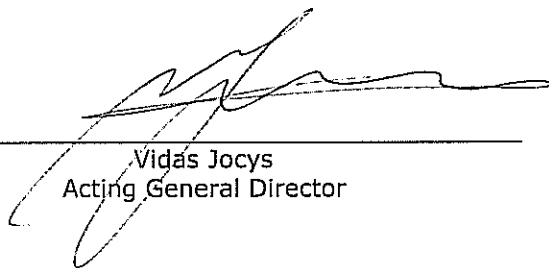
LIETUVOS ELEKTRINĖ AB

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
DECEMBER 2010, PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION**

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The financial statements were approved by the acting General Director and Chief Financier on 4 April 2011.



Vidas Jocyš
Acting General Director



Rolandas Jankauskas
Chief Financier



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 Lietuvos elektrinė AB

Report on the financial statements

We have audited the accompanying financial statements of Lietuvos elektrinė AB (the Company) set out on pages 46 – 86 which comprise the statement of financial position as of 31 December 2010 and the 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.

PricewaterhouseCoopers UAB, J. Jasinskio 16B, LT-01112 Vilnius, Lithuania

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Basis for Qualified Opinion – Disagreement

As disclosed in Note 12, as of 31 December 2010 the Company was not in compliance with certain debt financial covenants which permitted the lender to demand immediate repayment of borrowings totaling LTL 409,146 thousand. In our opinion, the classification of part of the related borrowings as non-current is not compliant with IAS 1 *Presentation of Financial Statements*, which requires the liability to be classified as non-current at the reporting date only if the Company has an unconditional right to defer settlement of the liability for at least 12 month after the reporting date. Consequently, non-current borrowings should be reduced and current borrowings should be increased by LTL 409,146 thousand for the Company as of 31 December 2010.

Basis for Qualified Opinion – Scope Limitation

As of 31 December 2010 and 2009 the Company has accounted for property, plant and equipment amounting to LTL 2,345,456 thousand and 1,675,102 thousand respectively using the estimated useful lives as disclosed in Note 2 to the financial statements. The Company is operating in an industry experiencing rapid technological change and therefore the estimated useful lives of property, plant and equipment should be reviewed on a regular basis as required by IAS 16 *Property, plant and equipment*. The Company has not performed such a review since 2004. In addition, as explained in Note 3 to the financial statements the Company has not estimated whether the recoverable amount of property, plant and equipment is not less than its carrying amount as required by IAS 36 *Impairment of assets*. Consequently, we were unable to obtain sufficient and appropriate evidence as to the carrying amounts of the Company's property, plant and equipment as of 31 December 2010 and 2009.


Qualified Opinion

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion - Disagreement* paragraph and except for the possible effects of the matters described in the *Basis for Qualified Opinion - Scope Limitation* paragraph, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

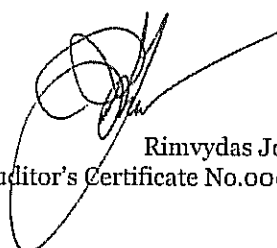
Report on other legal and regulatory requirements

Furthermore, we have read the Annual Report for the year ended 31 December 2010 set out on pages 5 – 45 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 2010.

On behalf of PricewaterhouseCoopers UAB


Christopher C. Butler
Director

Vilnius, Republic of Lithuania
4 April 2011


Rimvydas Jogėla
Auditor's Certificate No.000457

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts are in LTL, unless otherwise stated)

ANNUAL REPORT OF LIETUVOS ELEKTRINĖ AB
FOR THE YEAR ENDED 31 DECEMBER 2010

1. General information about AB Lietuvos elektrinė

Name	AB Lietuvos elektrinė, hereinafter referred to as the Company
Legal form	Public limited liability company
Company code	110870933
VAT code	LT108709314
Authorised capital	The authorised capital of the Company is LTL 145,800,689, which is divided into 145,800,689 ordinary registered shares with the par value of LTL 1
Address of the Company	Elektrinės g. 21, LT-26108 Elektrėnai
Telephone	(8~528) 39 066
Fax	(8~528) 39 733
E-mail	info@lelektrine.lt
Internet website	http://www.lelektrine.lt
Registration date and place	31 December 2001 at the Ministry of Economy of the Republic of Lithuania
Register in which information about the Company is filed and kept	Register of Legal Entities
Main activities of the Company	Branch of energy: energy. The Company produces and sells electrical and thermal energy.

The Company is a member of the Lithuanian Electricity Association; it participates in the activities of the Association and represents the common interests of the European power industry (EUROELECTRIC).

The supervisory board is not formed in the Company. On 16 December 2010, the extraordinary general meeting of shareholders of the Company amended the Articles of Association, which do not provide for the supervisory board as a management body of the Company.

MANAGEMENT BOARD (re-elected on 3 September 2009):

<u>Full name</u>	<u>Owned authorised capital / votes, %</u>
Arvydas Darulis, Chairman	-
Aloyzas Koryzna	-
Žygimantas Valčiūnas	-
Vytenis Kudinskis	-
	-

The chief executive officer of the Company, viz. the Director General, shall be elected and removed from office by the Management Board of the Company, which shall also fix his salary, approve his job description, provide incentives and impose penalties.

ADMINISTRATION

<u>Full name</u>	<u>Owned authorised capital / votes, %</u>
Vidas Jocys, Acting Director General	-
Rolandas Jankauskas, Chief Financial Officer	-

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Information about the Chairman of the Management Board, the Head of Administration and the Chief Financier

Arvydas Darulis – Chairman of the Management Board; a Vice-Minister of Energy of the Republic of Lithuania as of June 2010.

Vidas Jocys – Acting Director General. Education: higher, profession: engineer. Employed at the Company since 1986. Before the election to the position of the chief executive officer of the Company he held the position of the Technical Director.

Rolandas Jankauskas – Chief Financial Officer. Education: university, profession: engineer. Over the last 13 years he was employed as an expert with AB *SEB bankas*, an engineer of the Company, an assistant of the chief accountant, and the chief financial officer.

In 2010 and 2009, the average number of chief executive officers was 3.

In 2010 and 2009, neither loans nor guarantees, nor warrantees were granted to members of the Supervisory Board, the Management Board or the Administration of the Company. All transactions with the related parties are provided in the financial statements of 2010 (note 22).

The Company has an agreement with AB FMI *Finasta* (Maironio g. 11, Vilnius) regarding the accounting of the securities issued by the Company, the drawing of periodical reports and the disbursement of dividends to shareholders.

2. Objective review of the standing, performance and development of the Company, description of the main risks and uncertainties encountered by the Company

After the decommissioning of Unit 2 of the Ignalina Nuclear Power Plant on 31 December 2009, the Company became the main producer of electricity in Lithuania.

Over the last 10 years the Company has spent approximately LTL 1 billion on plant modernisation. In 2010, the Company commenced a construction of new 455 MW gas turbine unit, which will require 1/3 less gas to produce the same amount of electricity than the old units. Natural gas is the main fuel of the Company. The construction of smoke purification devices will enable to burn fuel oil and less expensive emulsions.

Key risk factors:

Economic risk factors

After increase in prices of natural gas, the price of electricity produced by the Company cannot withstand the competition of low energy prices in the market.

Political risk factors

The growth in gas prices resulted in the rise of the cost of electricity. As a result of undiversified import of gas from one country, i.e. Russia, Company is searching for alternatives of natural gas and possibilities to reduce the purchase price of gas.

Social risk factors

The last year saw the rise of labour costs in Lithuania. This resulted in the need to increase labour productivity in the Company. The Company pays great attention to improving working conditions as well as training and improvement of qualifications of employees.

Technical and technological risk factors

Pursuant to the Treaty of Accession of the Republic of Lithuania to the European Union (Article 2(8) of Protocol No 2) and the provisions of the National Energy Strategy, in 2010 the Company became the main producer of electricity in Lithuania as a result of the decommissioning of the Ignalina Nuclear Power Plant on 31 December 2009. In order to ensure a reliable electricity supply and to reduce the cost of produced electricity, the Company commenced a construction of new 455 MW combined cycle gas turbine (CCGT) unit. The cost of electricity produced by the unit is 30% less than the cost of electricity produced by old units; however, the unit may operate only by firing natural gas.

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Ecological risk factors

The Company will be able to avoid fines for environment pollution. Two out of eight units of the power plant are adapted to the firing of fuel, which generates more pollution, yet which is easily acquired and delivered from any country of the world, i.e. fuel oil – high sulphur and emulsions. Smoke purification devices prevent pollutants from being released into the environment; thus, EU environmental requirements are met.

Financial risk factors

Financial risk control policies are defined in the financial statements of the Company for the year 2010 (note 24).

3. Analysis of financial and non-financial performance. Information related to environmental and personnel issues

3.1. Indicators describing the operations of the Company in 2010-2009

	<u>2010</u>	<u>2009</u>
Profit before tax, thousand LTL	7,215	62,976
Net profit (loss) for the year, thousand LTL	5,475	90,551
Assets, thousand LTL	2,658,945	2,077,256
Liabilities, thousand LTL	1,628,920	1,042,496

3.2. Operations

In 2010, the Company actually produced 1.9 TWh of electricity. In 2010, the approved quota of subsidised electricity was 2.5 TWh. The entire information about the operations of the Company in 2010 is disclosed in the financial accounts.

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3.2.2. Environmental pollution caused by the Company in 2010

Emissions	Quantity of emission, t
1. Air pollution from boiler smoke:	
SO ₂	157,406
NO _x	768,800
CO	178,489
Fuel oil and orimulsion ashes	1,419
Including V ₂ O ₅	0.206
2. Evaporated hydrocarbons:	1.378
3. Air pollution from small pollution sources:	
NO _x	0.023
CO	0.065
K.d.	0.034
Iron compounds	0.048
Manganese compounds	0.007
Sulphur anhydride	0.026
LOJ	0.016
Sulphuric acid	0.003

3.2.3. Personnel

3.2.3.1. Number of employees of the Company in 2010 and 2009

Description	Total, 31 December 2009	Education, 31 December 2009	Total, 31 December 2010	Education, 31 December 2010
Number of employees	548		442	
Management personnel				
Specialists	153	Secondary - 12 Non-higher professional - 25 Higher - 137	127	Secondary - 11 Non-higher professional - 19 Higher - 114
Workers	395	Secondary - 253 Incomplete secondary - 11 Non-higher professional - 82 Higher - 27 Elementary - 1	315	Secondary - 197 Incomplete secondary - 6 Non-higher professional - 65 Higher - 30

After the decommissioning of Unit 2 of the Ignalina Nuclear Power Plant in 2010, the Company became the main producer of electricity in the country; however, the expected output is significantly lower than the capacity of the power plant permits. Therefore, the number of employees has been significantly reduced.

There is no information about any material agreements between the Company, its management, employees and other parties.

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4. References and additional explanations to information disclosed in annual financial statements

Information disclosed in annual financial statements and explanatory notes is sufficient, detailed and requires no additional explanation.

5. Information about the compliance with the corporate governance code

Information about the compliance with the corporate governance code is provided in the annex to the annual report (pages 47–69).

6. The number and par value of all acquired shares and own shares of the Company; part of the authorised capital that these shares comprise. The number and par value of own shares acquired and transferred during the reporting period; part of the authorised capital that these shares comprise. Information about the payment of own shares, provided they are acquired or transferred for a charge. Reasons for the acquisition of the own shares during the reporting period

6.1. Information about the secondary turnover of the securities publicly held by the Company

6.1.1. Securities traded in the stock exchange

Shares of the Company are listed in the official listing of AB *NASDAQ OMX Vilnius* (hereinafter referred to as the VVPB) as of 1 February 2002.

6.1. Table. Principal characteristics of shares of the Company

<u>Type of shares</u>	<u>Share ISIN code</u>	<u>Index</u>	<u>Number of shares (in units)</u>	<u>Par value, LTL</u>	<u>Total par value, LTL</u>
Ordinary registered shares	LT0000126351	LEL1L	145,800,689	1	145,800,689

6.2. Trading in securities of the Company on stock exchanges and other organised markets

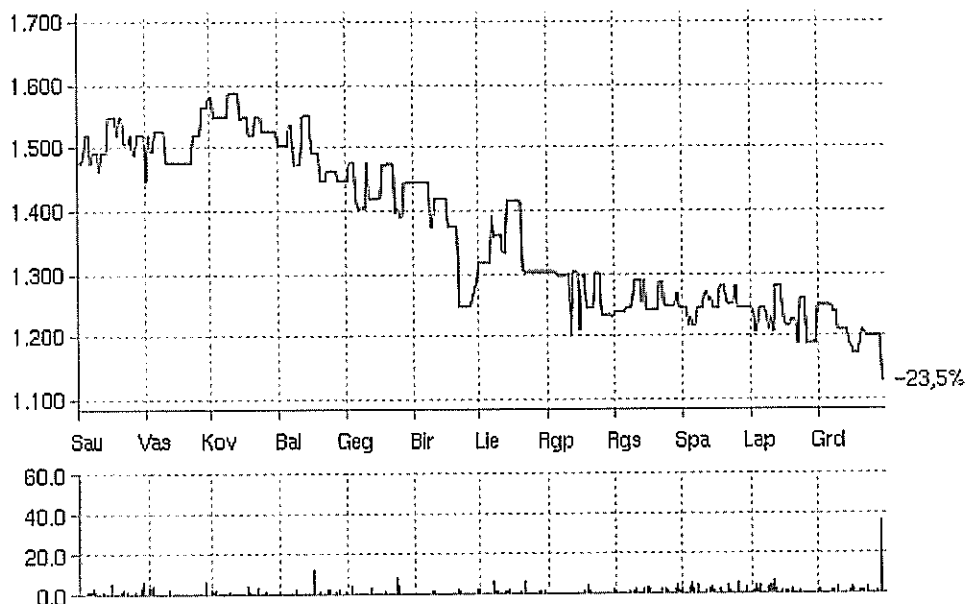
6.2.1. Trading on Vilnius Stock Exchange

6.2. Table. Security trading history

<u>Indicator</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Opening price	4.49	4.49	3.85	5,1
Maximum price	7.38	7.38	6.32	5,77
Minimum price	4.00	4.00	2.5	3,83
Closing price	6.10	6.10	5.1	3,90
Turnover, in units	466,291	466,291	180,208	794,579
Turnover, in millions	2.57	2.57	0.79	1,04
Capitalisation, in millions	889.38	889.38	743.58	568,849

**ANNUAL REPORT
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6.1. Diagram. Trading in shares of the Company
Currency: LTL



6.2.2. Trading on other stock exchanges

The Company does not trade its shares on other stock exchanges.

6.2.3. Trading in other organised markets

The Company does not trade its shares on other organised markets.

6.3. Trading in shares of the Company outside of stock exchange

As the shares of the Company are listed on Vilnius Stock Exchange, in 2004 – 2010 purchase and sale transactions involving the shares of the Company could only be entered into through VVPB.

Only transactions, such as exchange, gift, inheritance, repayment transactions and repos, can be entered into outside the stock exchange. The Law of the Republic of Lithuania on Markets in Financial Instruments came into force on 8 February 2007, and it no longer had the requirement to enter into secondary turnover transactions. Transactions could be entered into both inside and outside VVPB.

6.4. All shares of the Company are intangible shares. All shares of the Company are ordinary registered shares of the same class, which shall confer the same rights to their holders (shareholders)

6.4.1. Shareholders

Key characteristics of publicly traded shares:

On 22 December 2001 the Securities Commission of the Republic of Lithuania registered the emission of 150,743,012 ordinary registered shares of the Company with the par value of LTL 1 (Securities Registration Certificate No AB-5018, Securities Registration No. A01011524). The shares were issued at the time of the incorporation of the Company for the purpose of forming its authorised capital while reorganising SP AB Lietuvos energija. The Company was registered on 31 December 2001. In 2003, the authorised capital of the Company was reduced by LTL 4,942,323 (by the amount of assets transferred to Elektrėnai Municipality in order to reduce the amount of shares of the Company held by the State). Amendments of the Articles of Association were registered on 9 May 2003. As a result of the reduction of the authorised capital, the authorised capital of the Company is LTL 145,800,689. It is divided into 145,800,689 common registered shares with the par value of LTL 1 each.

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Shareholders shall have the following property rights:

- 1) to receive a part of the Company's profit (dividends). The dividend is a share of profit allocated to the shareholder *pro rata* to the par value of shares owned by him. If a share is not fully paid up, the shareholder's dividends shall be reduced *pro rata* to the unpaid amount of the share; no dividends shall be disbursed if the payment deadline is expired. Dividends declared by the general meeting of shareholders shall be the liability of the Company. The Company must pay dividends within 1 month after the day of the adoption of the resolution on profit appropriation. The shareholder shall have the right to claim the payment of dividends as the creditor of the Company;
- 2) to receive a part of the assets of the Company in liquidation;
- 3) to receive free shares if the authorised capital is increased out of the funds of the Company, except in cases provided by Article 42(3) of the Law on Companies;
- 4) to have the pre-emptive right in acquiring the shares issued by the Company, except when the general meeting of shareholders resolves to withdraw the pre-emptive right for all the shareholders following the procedure provided by the Law on Companies;
- 5) to assign or otherwise transfer all or any of the shares to other persons following the procedure established by the Law on Companies and the Civil Code;
- 6) to request that other shareholders sell their shares to them, or to request that other shareholders purchase shares from them in cases and following the procedure established by the Law on Markets in Financial Instruments;
- 7) to lend money to the Company following the procedure provided by the law. However, when borrowing from its shareholders, the Company may not pledge its assets to the shareholders. When the Company borrows from a shareholder, the interest cannot exceed the average interest rate offered by commercial banks and in effect on the date of the contract. In this case the Company and shareholders shall be prohibited from negotiating a higher interest rate;
- 8) other property rights established by laws and regulations.

Shareholders shall have the following non-property rights:

- 1) to attend general meetings of shareholders;
- 2) to vote at general meetings of shareholders according to voting rights carried by their shares;
- 3) to receive information about the Company as provided by Article 18(1) of the Law on Companies;
- 4) to file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the chief executive officer of the Company and members of the management board of their obligations established by the Articles of Association and laws, as well as in other cases laid down by law;
- 5) In cases specified by Article 2.82(4) of the Civil Code, to bring an action for declaring the resolution of the bodies of the Company invalid within 30 days from the day when the plaintiff found out or should have found out about the contested resolution;
- 6) to authorise another person to vote on his behalf in a meeting of shareholders or to perform any other legal deeds;
- 7) other non-property rights established by laws and regulations.

6.4.2. Shares

All shares of the Company are ordinary registered shares of the same class, which confer the same rights to their holders (shareholders). A shareholder cannot transfer not fully paid up shares or his subscribed shares to another person until the amendments of the Articles of Association regarding the increase of the authorised capital are registered following the procedure provided by the Law of the Republic of Lithuania on Companies and the present Articles of Association. The shareholder must notify the director of the Company in writing about his intention to transfer all or part of his shares by stating the number of shares to be transferred, the method of transfer and, if shares are being sold, the price.

6.3. Table. Shareholders of the Company on 31 December 2010

Shareholders	Shares owned	
	LTL	%
<i>Lietuvos energija</i> Public Limited Liability Company	139,292,961	95.54
Other	6,507,728	4.46
Total	145,800,689	100.00

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6.4. Table. Shareholders who owned or held more than 5% of the authorised capital of the issuer on 31 December 2010

Name, address and code of the shareholder	Number of shares owned, in units	Held share of authorised capital, %	Votes granted by shares owned, %	Votes held by shareholders jointly with other operators, %
<i>Lietuvos energija</i> Public Limited Liability Company, address: Elektrinės g. 21, Elektrėnai, Code: 220551550	139,320,481	95.56	95.56	-

6.4.3. There are no shareholders who have special control rights.

6.4.4. The right to vote in a general meeting of shareholders may be withdrawn or restricted in cases provided by the Law on Companies and other laws, also in cases when the title to a share is contested. Only fully paid up shares shall provide the voting right in general meetings of shareholders. All voting shares of the Company shall have the same par value, and each share shall grant one vote in the general meeting of shareholders. A shareholder shall not be entitled to vote on a resolution on the pre-emptive right in acquiring the shares issued by the Company or on withdrawal of convertible debentures if the agenda of the general meeting of shareholders provides that the right to acquire the above securities is granted to this shareholder, the shareholder's close relatives, the shareholder's spouse or common-law spouse, where the partnership has been registered in accordance with the procedure established by law, and to a close relative of the spouse, if the shareholder is a natural person, also to the shareholder's parent company or the shareholder's subsidiary, if the shareholder is a legal entity, unless the shareholder has acquired all the shares in the Company.

6.4.5. There are no agreements between shareholders that the Company is aware of and that can limit the transfer of securities and/or voting rights.

7. Information about the branches and representative offices of the Company

The Company does not have any branch offices or representative offices. In 2010, the Company did not participate in any operations of other companies.

8. Significant events occurring after the close of the previous financial year

February

On 18 February 2010, a credit agreement for EUR 71 million was signed with the European Bank for Reconstruction and Development regarding the financing of the construction of Unit 9.

March

By the initiative and resolution of the Management Board of the Company the annual general meeting of shareholders of the Company (code 110870933, address: Elektrinės g. 21, Elektrėnai, Lithuania) was convened to be held at 11 a.m. on 29 April 2010 at the headquarters of the Company at Elektrinės g. 21, Elektrėnai. The meeting shall be held at the headquarters of the Company at Elektrinės g. 21, Elektrėnai. The registration of shareholders will start at 9 a.m. The accounting day of the general meeting of shareholders shall be 23 April 2009.

Agenda:

1. The annual report of the Company for the year 2009;
2. The auditor's report regarding the financial statements of the Company for the year 2009;
3. The approval of the financial statements of the Company for the year 2009;
4. The approval of the appropriation of the profit (loss) of the Company for the year 2009;
5. The recall of the members of the Supervisory Board of the Company;
6. The amendment of the Articles of Association of Lietuvos elektrinė Public Limited Liability Company;
7. The election of the members of the Supervisory Board of the Company.

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On 31 March 2010, a credit agreement for EUR 81.4 million was signed with the consortium of banks operating in Lithuania regarding the financing of the construction of Unit 9.

April

The following resolutions were adopted by the annual meeting of shareholders held on 29 April 2010:

1. Annual financial statements of the Company for the year 2009	
To appropriate the profit (loss) of the Company for the year 2009 as follows:	
Retained profit (loss) of the previous financial year at the end of the reporting period	LTL 0
Net profit (loss) for the reporting financial year	LTL 90,668,158
Profit (loss) of the reporting financial year not recognised in the Profit and Loss Statement	LTL 0
Transfers from reserves	LTL 0
Shareholder contributions for the compensation of loss	LTL 0
Total profit (loss) to be appropriated	LTL 90,668,158
Profit appropriation:	
- a share of the profit appropriated to the legal reserve	LTL 870,404
- a share of the profit appropriated to the reserve of own shares	LTL 0
- a share of the profit appropriated to other reserves	LTL 0
- a share of the profit appropriated for the distribution of dividends	
- a share of the profit appropriated for annual payments, bonuses paid to the employees, and for other objectives (charity, sponsorship):	LTL 10,210,000
Including for sponsorship	LTL 300,000
Retained profit (loss) at the end of the reporting period carried over to the following financial year	LTL 79,287,754

2. To recall the Supervisory Board of Lietuvos elektrinė Public Limited Liability Company:

1. Artūras Dainius,
2. Marija Siniavska,
3. Nijolė Bujauskienė,
4. Janina Butkevičienė.

3. To amend and recast the Articles of Association of AB Lietuvos elektrinė.

4. To elect the following Supervisory Board:

1. Kęstutis Škiudas, Advisor to the Prime Minister of the Republic of Lithuania;
2. Lina Kazakevičiūtė, Assistant to the Minister of Energy of the Republic of Lithuania
3. Inga Černiuk, Head of the Law Division at the Ministry of Energy of the Republic of Lithuania
4. Arvydas Sukackas, Senior Specialist of the Renewable Energy Resources Division at the Ministry of Energy of the Republic of Lithuania.

May

The meeting of the Supervisory Board of AB Lietuvos elektrinė held on 28 May 2010 elected Kęstutis Škiudas as the Chairman of the Supervisory board.

AB Lietuvos elektrinė informs about the resignation of Vytautas Vazalinskas, a member of the Management Board.

The said meeting of the Supervisory Board elected Kęstutis Žilėnas as a member of the Management Board of AB Lietuvos elektrinė for the remaining term of office of the Management Board.

June

On 1 June 2010, a quadripartite service agreement "On seismic surveying study in Svyderiai structure and in potential construction sites of Visaginas nuclear power plant" was signed.

On 4 June 2010, UAB *Visagino atominė elektrinė* (legal form: private limited liability company, code 301844044, address of the registered office: Žvejų g. 14, Vilnius), which is indirectly controlled by 100% by the Republic of Lithuania, acquired 139,292,961 ordinary registered shares of Lietuvos elektrinė Public Limited Liability Company of the Republic of Lithuania, the par value of each share was LTL 1 (one) (share issue code: LT0000126351). These shares have been acquired for the purpose of increasing the authorised capital of UAB *Visagino atominė elektrinė*.

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On 21 June 2010, the Chairman of the Management Board of AB Lietuvos elektrinė Henrikas Bernatavičius resigned.

July

The meeting of the Supervisory Board of AB Lietuvos elektrinė held on 1 July 2010 elected Arvydas Darulis as a member of the Management Board of AB Lietuvos elektrinė for the remaining term of office of the Management Board.

On 22 July 2010, the Supervisory Board of Lietuvos elektrinė Public Limited Liability Company recalled Pranas Noreika, Rolandas Jankauskas and Kęstutis Žilėnas from the Management Board of Lietuvos elektrinė Public Limited Liability Company, and elected the following new members of the Management Board of Lietuvos elektrinė Public Limited Liability Company: Aloyzas Koryzna, Žygimantas Vaičiūnas and Vytenis Kudinskas. Laimonas Lukočius and Arvydas Darulis remain members of the Management Board of Lietuvos elektrinė Public Limited Liability Company.

The meeting of the Management Board of Lietuvos elektrinė Public Limited Liability Company held on 22 July 2010 elected Arvydas Darulis as the Chairman of the Management Board. Pranas Noreika was recalled from the position of the Director General of the Company, effective on 22 July 2010, and Laimonas Lukočius was appointed the new Director General, effective on 23 July 2010.

August

On 19 August 2010, Lietuvos elektrinė Public Limited Liability Company received a notice from Lietuvos energija Public Limited Liability Company informing that on 18 August 2010 Lietuvos energija Public Limited Liability Company acquired 133,065,125 ordinary registered shares of Lietuvos elektrinė Public Limited Liability Company, the par value of each share being LTL 1, i.e. 91.27% of all the shares of Lietuvos elektrinė Public Limited Liability Company. UAB Visagino atominė elektrinė used these shares of Lietuvos elektrinė Public Limited Liability Company to finance the increase of the authorised capital of Lietuvos energija Public Limited Liability Company.

October

On 13 October 2010, Lietuvos elektrinė Public Limited Liability Company received a notice from Lietuvos energija Public Limited Liability Company informing that Lietuvos energija Public Limited Liability Company, a public limited liability company incorporated and operating according to the laws of the Republic of Lithuania, company code 220551550, address of the registered office: Elektrinės g. 21, Elektrėnai, fully controlled by the Republic of Lithuania, (hereinafter referred to as the Company) information about the Company is filed and kept with the Register of Legal Entities, informs that on 8 October 2010, for the purpose of the implementation of the plan on the restructuring of the energy section, it acquired from UAB Visagino atominė elektrinė (code 301844044, address: Žvejų g. 14, Vilnius, Republic of Lithuania), fully controlled by the Republic of Lithuania, 6,227,836 (six million two hundred twenty seven thousand eight hundred and thirty six) ordinary registered shares of Lietuvos elektrinė Public Limited Liability Company, the par value of each share being LTL 1 (one), i.e. 4.27% of all the shares of Lietuvos elektrinė Public Limited Liability Company, and passed the 95% threshold.

November

1. The National Control Commission for Prices and Energy (hereinafter referred to as NCCPE) has fixed the price of the tertiary reserve of the active power for the year 2011 to be 12.2 LTL/MW/h (net of VAT).
2. The National Control Commission for Prices and Energy established financing public service obligations for the year 2011 for producers who ensure the safety of electricity supply and the energy system reserves in order to ensure the eligible electricity volume, i.e. LTL 256.6 million, and for producers who ensure the safety of electricity supply and the energy system reserves in order to finance the mandatory fixed costs, viz. LTL 91.3 million, including LTL 70 million for the financing of the construction of the new unit of AB Lietuvos elektrinė.
3. NCCPE fixed the electricity buying-in price for producers who ensure the safety of electricity supply and the energy system reserves for the year 2011, viz. 30.75 ct/kWh.

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The Management Board of AB Lietuvos elektrinė satisfied the resignation request of Director General Laimonas Lukočius and recalled him from the position of the Director General, effective on 19 November 2010. Technical Director of AB Lietuvos elektrinė Vidas Jocys has been elected the Acting Director General.

December

The following resolutions were adopted by the extraordinary general meeting of shareholders of AB Lietuvos elektrinė held on 16 December 2010:

1. To amend and recast the Articles of Association of AB Lietuvos elektrinė.
2. To approve (elect) audit company UAB *PricewaterhouseCoopers* (company code 111473315, address: J. Jasinskio g. 16B, Vilnius) to perform the financial audit of AB Lietuvos elektrinė for the year 2010, and to fix the remuneration for the said audit services not exceeding LTL 70,000 (seventy thousand), net of VAT, and pay for the actually provided audit services within 60 (sixty) days from the date of the VAT invoice.

Agreements on the purchase and sale of natural gas, the purchase and sale of electricity, electricity balancing and regulation as well as systemic services for the year 2011.

Post-balance sheet items

On reorganisation

The following resolution was adopted by the extraordinary general meeting of shareholders of Lietuvos elektrinė Public Limited Liability Company held on 19 January 2011:
To authorise the Management Board of Lietuvos elektrinė Public Limited Liability Company in co-operation with the Management Board of *Lietuvos energija* Public Limited Liability Company (a public limited liability company incorporated according to the laws of the Republic of Lithuania, with its registered office at Elektrinės g. 21, Elektrėnai, Republic of Lithuania, company code 220551550, registered with the Register of Legal Entities of the Republic of Lithuania) to draft the terms of reorganisation of Lietuvos elektrinė Public Limited Liability Company and *Lietuvos energija* Public Limited Liability Company by merger (Article 2.97(2) of the Civil Code of the Republic of Lithuania).

On the amendment of the description of PSO

On 1 January 2011, the amended description for the provision of Public Service Obligations (PSO) came into force; according to this description, AB Lietuvos elektrinė will receive PSO funds only for the generated eligible electricity.

On the renewal of the overdraft agreement

The agreement with AB *Swedbank* on the overdraft limit of LTL 13,000,000 expired in March 2011. The agreement has been renewed for another year under the same terms and conditions.

More information is available at:
<http://www.nasdaqomxbaltic.com>
<http://www.lelektrine.lt>

9. Information about the research and development activities of the Company

The construction of the new 455 MW combined cycle gas turbine unit was the main development project that the Company carried out in 2010. The expected start of the operations of the unit is the 4th quarter of 2012.

10. Operational plans and forecasts of the Company

10.1. Operational and investment plans of the Company for 2011

The Management Board of AB Lietuvos elektrinė approved the budget and the investment plan for 2011. The budget and the investment plan shall not be made public.

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11. When the Company uses financial instruments and when this is important for the valuation of the assets, the equity capital, liabilities, the financial standing and the performance of the Company, the Company shall disclose the financial risk management objectives, main types of hedging of the expected transactions employed that is subject to hedge accounting, and the extent of the price, credit, liquidity and cash flow risks.

The Company does not use any financial instruments, which would affect the valuation of the assets, liabilities, the financial standing and the performance of the Company. More risk-related information is available in the financial statements of the Company.

12. Amendment of the Articles of Association of the Company

The Articles of Association of the Company shall be amended according to the procedure established by the Law of the Republic of Lithuania on Companies, by a resolution of the general meeting of shareholders adopted with the majority of at least 2/3 (two thirds) of votes conferred by the shares of all shareholders present at the general meeting of shareholders.

Acting Director General
Lietuvos elektrinė AB
31 March 2010
Elektrėnai, Lithuania

Vidas Jocyš

Disclosure of compliance with the Governance Code for the companies listed on the regulated market

Pursuant to Article 21(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, Lietuvos elektrinė Public Limited Liability Company shall disclose its compliance with the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius and its specific provisions. If the Company fails to comply with this Code or certain provisions thereof, it shall specify which provisions are not complied with and the reasons of non-compliance.

PRINCIPLES / RECOMMENDATIONS	YES/NO	NOTE
Principle I: Basic Provisions		
The overriding objective of a company should be to operate in common interests of all the shareholders by optimising over time 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 optimise shareholder value.	YES	
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimise shareholder value.	YES	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	YES	
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	YES	
Principle II: The corporate governance framework		
The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.		
2.1. Besides obligatory bodies provided for in the Law of the Republic of Lithuania on Companies - a general meeting of shareholders and the chief executive officer, it is recommended that a company should set up both collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	NO	No supervisory body, i.e the supervisory board, is set up in the Company. The Company had a Supervisory Board before 16 December 2010.

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<p>2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.</p>	<p>NO</p>	<p>No supervisory body, i.e. the supervisory board, is set up in the Company.</p>
<p>2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.</p>	<p>NO</p>	<p>No supervisory body, i.e. the supervisory board, is set up in the Company.</p>
<p>2.4. The collegial supervisory body to be elected by the general meeting of shareholders should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.</p>	<p>YES</p>	<p>Applies to the Management Board.</p>
<p>2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.</p>	<p>YES</p>	
<p>2.6. Non-executive directors or members of the supervisory board should be appointed for special terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.</p>	<p>NO</p>	<p>No supervisory body, i.e. the supervisory board, is set up in the Company.</p>

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<p>2.7. Chairman of the collegial body elected by the general meeting of shareholders may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general meeting of shareholders. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>YES</p>	
<p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting The order of the formation of a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.</p>		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>YES</p>	
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general meeting of shareholders so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>YES</p>	

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<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>YES</p>	
<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	<p>YES</p>	
<p>3.5. All new members of the collegial body should be offered a tailored programme focused on introducing a member with his/her duties, corporate organisation and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>NO</p>	<p>Members of the management board are informed on corporate activities during the meetings of the management board.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.</p>	<p>YES</p>	

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<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> 1) 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 such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance-based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is in no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in Article 1(1) of Council Directive 83/349/EEC); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organisation receiving significant payments from the 	<p>NO</p>	<p>The Company follows the criteria stated in this recommendation when assessing the independence of members of the Management Board. With due consideration to the criteria stated in the recommendation, the majority of members of the Management Board of the Company cannot be considered independent, as they represent the key shareholder of the Company or the legal entity that indirectly controls the Company.</p>
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<p>company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general 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; 8) He/she has not been in the position of a member of the collegial body for over 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory body) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>	<p>YES</p>	
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	<p>NO</p>	<p>So far, the Company did not follow any procedure of disclosing the assessment of the independence of members of a collegial management body.</p>

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<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	<p>NO</p>	<p>So far, the Company did not follow any procedure of the assessment of the independence of members of a collegial management body.</p>
<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general meeting of shareholders should approve the amount of such remuneration.</p>	<p>YES</p>	
<p>Principle IV: The duties and liabilities of a collegial body elected by the 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 of the company's management bodies and protection of interests of all the company's shareholders.</p>		
<p>4.1. The 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 the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.</p>	<p>YES</p>	
<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>YES</p>	

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<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>YES</p>	
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>YES</p>	
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>YES</p>	

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<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management bodies of the company concerned.</p>	<p>YES</p>	
<p>4.7. Activities of the collegial body should be organised in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore, when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However, they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small numbers of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the</p>	<p>NO</p>	<p>The Company does not have a nomination or a remuneration committee; the Company has a sole director, therefore the chance of a conflict of interests is minimal.</p>

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<p>collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>		
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organise its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgment and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	<p>NO</p>	<p>The Company does not have a nomination or a remuneration committee.</p>
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	<p>NO</p>	<p>The Company does not have a nomination or a remuneration committee.</p>
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that</p>	<p>NO</p>	<p>The Company does not have a nomination or a remuneration committee.</p>

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<p>it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>		
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should generally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation of particular officers or experts in the meeting. The chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Cases when such are to be performed should be specified in the regulations for committee activities.</p>	<p>NO</p>	<p>The Company does not have a nomination or a remuneration committee.</p>
<p>4.12. Nomination Committee 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. The 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 the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on a regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. The nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general meeting of shareholders is the supervisory body) and senior management, the chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>	<p>NO</p>	<p>The Company does not have a nomination committee.</p>

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<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies, and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management</p>	<p>NO</p>	<p>The Company does not have a remuneration committee.</p>
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<p>bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <p>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <p>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</p> <p>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</p> <p>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least</p>	<p>NO</p>	<p>UAB <i>Visagino atominė elektrinė</i>, which is indirectly controlled by the Audit Committee set up by the Audit committee</p>

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<p>annually;</p> <p>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</p> <p>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in Commission Recommendation 2002/590/EC of 16 May 2002, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</p> <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors</p>		
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<p>and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	<p>NO</p>	<p>No assessment of the activities of the collegial body are performed by the Company. The Company does not disclose any relevant information.</p>

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Principle V: The working procedure of the company's collegial bodies
The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.

<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	<p>YES</p>	
<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.</p>	<p>YES</p>	
<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>YES</p>	

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<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>NO</p>	<p>Only the management board is formed in the Company.</p>
<p>Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</p>		
<p>6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	<p>YES</p>	
<p>6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.</p>	<p>YES</p>	
<p>6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.</p>	<p>YES</p>	
<p>6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.</p>	<p>YES</p>	

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<p>6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company; documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	<p>NO</p>	<p>Published in Lithuanian and English.</p>
<p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>YES</p>	
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>NO</p>	<p>The Company does not provide any opportunity for shareholders to vote via electronic means of communication, as the shareholders failed to state such wish.</p>

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Principle VII: The avoidance of conflicts of interest and their disclosure
The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.

<p>7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.</p>	<p>YES</p>	
<p>7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.</p>	<p>YES</p>	
<p>7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.</p>	<p>YES</p>	
<p>7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.</p>	<p>YES</p>	

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Principle VIII: Company's remuneration policy		
Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	NO	The Company does not prepare remuneration policy report.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following financial year and, if appropriate, the subsequent financial years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	NO	It is not common to disclose respective information.
8.3. Remuneration statement should leastwise 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 entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been	NO	It is not common to disclose respective information.

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<p>examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.</p>		
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	NO	It is not common to disclose respective information.
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <p>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general meeting of shareholders; 2) The remuneration and advantages received from any undertaking 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 granted; 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 former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</p>	NO	It is not common to disclose respective information.

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<p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 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 existing share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met</p>	<p>YES</p>	<p>These provisions are complied with.</p>
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	<p>NO</p>	<p>It is not common to disclose respective information.</p>

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8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	NO	It is not common to disclose respective information.
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	NO	It is not common to disclose respective information.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	YES	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	YES	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	NO	It is not common to disclose respective information.
8.13. Shares should not vest for at least three years after their award.	YES	N/A
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	YES	N/A

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<p>8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).</p> <p>8.16. Remuneration of non-executive or supervisory directors should not include share options.</p>	<p>YES</p>	<p>N/A</p>
<p>8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.</p>	<p>YES</p>	
<p>8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the annual general meeting of shareholders. Remuneration statement should be put for voting in the annual general meeting of shareholders. The vote may be either mandatory or advisory.</p>	<p>YES</p>	
<p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in the annual general meeting of shareholders. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>NO</p>	<p>No such schemes are applied by the Company, and it is not common to disclose respective information.</p>

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<p>8.20. The following issues should be subject to the approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 1) Grant of remuneration to directors based on share-based schemes, including share options; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. <p>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p>	<p>NO</p>	<p>No such schemes are applied by the Company, and it is not common to disclose respective information.</p>
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	<p>NO</p>	<p>No such schemes are applied by the Company, and it is not common to disclose respective information.</p>
<p>8.22. Provisions of points 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	<p>NO</p>	<p>No such schemes are applied by the Company, and it is not common to disclose respective information.</p>

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<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in point 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>	<p>NO</p>	<p>No such schemes are applied by the Company, and it is not common to disclose respective information.</p>
<p>Principle IX: The 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 companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept 'stakeholders' includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>YES</p>	
<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p>	<p>YES</p>	
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>	<p>YES</p>	

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Principle X: Information disclosure
The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company

<p>10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) objectives of the Company; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) structures and strategy of corporate governance; 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.</p>	<p>YES</p>	
<p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in point 1 of Recommendation 10.1 is under disclosure.</p>	<p>NO</p>	<p>N/A</p>
<p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in point 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p>	<p>NO</p>	<p>It is not common to disclose respective information.</p>

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<p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in point 7 of Recommendation 10.1 is under disclosure.</p>	<p>NO</p>	<p>It is not common to disclose respective information.</p>
<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on NASDAQ OMX Vilnius, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	<p>YES</p>	
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.</p>	<p>YES</p>	
<p>10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.</p>	<p>YES</p>	
<p>Principle XI: The selection of the company's auditor The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</p>		
<p>11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.</p>	<p>YES</p>	

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FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts are in LTL, unless otherwise stated)

11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	YES	
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	YES	

**STATEMENT OF FINANCIAL POSITION
 FOR THE YEAR ENDED 31 DECEMBER 2010**
 (All amounts in LTL thousand unless otherwise stated)

	Note	At 31 December 2010	At 31 December 2009 (restated)	At 1 January 2009 (restated)
ASSETS				
Non-current assets				
Intangible assets	4	56,984	27,261	29,039
Property, plant and equipment	5	2,345,456	1,675,102	1,451,544
Prepayments for property, plant, equipment		43,562	144,854	21,998
Accounts receivable		756	837	949
Other financial assets		875	934	1,657
Total non-current assets		2,447,633	1,848,988	1,505,187
Current assets				
Inventories	6	125,470	42,278	72,099
Prepayments		751	1,285	3,835
Trade and other receivables	7	71,223	42,502	31,722
Cash and cash equivalents	8	13,868	142,203	59,554
Total current assets		211,312	228,268	167,210
TOTAL ASSETS		2,658,945	2,077,256	1,672,397
Capital and reserves				
Share capital	9	145,801	145,801	145,801
Legal reserve	10	14,580	13,710	13,710
Other reserves	10	781,552	781,646	815,844
Retained earnings (deficit)		88,092	93,603	(31,264)
Total equity		1,030,025	1,034,760	944,091
Non-current liabilities				
Grants	11	845,435	718,705	333,310
Borrowings	12	503,164	111,986	129,953
Other non-current accounts payable and liabilities		23	-	-
Deferred income tax liabilities	13	109,336	113,365	154,932
Total non-current liabilities		1,457,958	944,056	618,195
Current liabilities				
Borrowings	12	31,828	17,967	14,253
Trade payables	14	75,001	45,931	61,800
Advance amounts received		3,358	-	-
Income tax payable		490	2,386	-
Provisions for emission rights	15	54,212	26,909	28,512
Other accounts payable and liabilities	16	6,073	5,247	5,546
Total current liabilities		170,962	98,440	110,111
Total liabilities		1,628,920	1,042,496	728,306
TOTAL EQUITY AND LIABILITIES		2,658,945	2,077,256	1,672,397

The accompanying notes form an integral part of the financial statements

LIETUVOS ELEKTRINĖ AB

Company code: 110870933, Elektrinės g. 21, LT-26108 Elektrėnai

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousand unless otherwise stated)

	Note	2010	2009
Revenue			
Sales revenue	17	769,414	414,912
Other operating income	17	1,644	3,161
		771,058	418,073
Operating expenses			
Purchase of fuel		(545,599)	(257,230)
Purchase of electricity and related services		(70,889)	(1,941)
Wages and related expenses	18	(34,452)	(41,857)
Expenses related to provisions for emissions	15	(31,266)	(6,287)
Depreciation and amortisation	4,5,11	(29,086)	(26,892)
Loss arising on revaluation of emission rights	4	(16,937)	-
Repair and maintenance expenses		(10,326)	(15,391)
Write-down of inventories to net realisable value	6	(8,970)	-
Other expenses	19	(10,197)	(8,104)
		(757,722)	(357,702)
Total operating expenses			
		13,336	60,371
OPERATING PROFIT			
Finance income	20	227	3,576
Finance costs	21	(6,348)	(971)
		(6,121)	2,605
PROFIT BEFORE INCOME TAX		7,215	62,976
Current year income tax expense	13	(5,769)	(13,992)
Deferred tax income (expense)	13	4,029	41,567
		5,475	90,551
PROFIT FOR THE YEAR			
Other comprehensive income:			
Other comprehensive income		-	118
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		5,475	90,669
Earnings per share (LTL)	23	0,04	0,62

The accompanying notes form an integral part of the financial statements

**STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 31 DECEMBER 2010**
 (All amounts in LTL thousand unless otherwise stated)

	Note	Share capital	Legal reserve	Other reserves	Retained earnings (deficit)	Total
Balance at 31 December 2008		145,801	13,710	815,844	(31,264)	944,091
Total comprehensive income				118	90,551	90,669
Utilisation of reserves	10	-	-	(34,316)	34,316	-
Balance at 31 December 2009		145,801	13,710	781,646	93,603	1,034,760
Balance at 31 December 2009		145,801	13,710	781,646	93,603	1,034,760
Total comprehensive income		-	-	-	5,475	5,475
Revaluation of emission rights utilised		-	-	(118)	118	-
Transfer to reserves	10	-	870	24	(894)	-
Dividends	10	-	-	-	(10,210)	(10,210)
Balance at 31 December 2010		145,801	14,580	781,552	88,092	1,030,025

The accompanying notes form an integral part of the financial statements

LIETUVOS ELEKTRINĖ AB

Company code: 110870933, Elektrinės g. 21, LT-26108 Elektrėnai

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in LTL thousand unless otherwise stated)

	Note	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflow from clients		754,982	407,049
Cash outflows to suppliers and employees		(784,719)	(272,627)
Cash from operations		(29,737)	134,422
Income tax paid		(1,447)	(7,999)
Interest paid		(16,158)	(4,661)
Grants received	11	5,795	-
Net cash generated from/ (used in) operating activities		(41,547)	121,762
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property, plant and equipment and intangible assets		(521,584)	(25,262)
Disposal of intangible assets	4	40,579	1
Loan repayments received		81	112
Interest received		58	291
Net cash (used in) investing activities		(480,866)	(24,858)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	12	409,146	-
Repayments of borrowings	12	(17,967)	(14,253)
Dividends paid		(10,088)	(2)
Net cash generated from/(used in) financing activities		381,091	(14,255)
Exchange gains/(losses) on cash and cash equivalents		-	-
Net increase (decrease) in cash and cash equivalents		(141,322)	82,649
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	8	142,203	59,554
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	8	881	142,203

The accompanying notes form an integral part of the financial statements

LIETUVOS ELEKTRINĖ AB

Company code: 110870933, Elektrinės g. 21, LT-26108 Elektrėnai

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2010

(All amounts in LTL thousand unless otherwise stated)

1 General information

Pursuant to Lithuanian Law No. VIII-1693 of 18 May 2000 on Reorganisation of the Special Purpose Public Company Lietuvos Energija, the special purpose public company Lietuvos Energija was reorganised through the spin-off as a result of which parts of assets, rights and obligations were separated from the special purpose public company Lietuvos Energija, which continued its activities after the reorganisation without the status of a special purpose company, and on the basis the separated parts of assets, rights and obligations the following new companies were established: Lietuvos Elektrinė AB, Mažeikių Elektrinė AB, Rytų Skirstomieji Tinklai AB and Vakarų Skirstomieji Tinklai AB.

Pursuant to the Lithuanian Law on the Register of Companies, Lietuvos Elektrinė AB (hereafter "the Company") was registered on 31 December 2001 with the Ministry of Economy. In 2009, the Company was placed under the authority of the Ministry of Energy. As at 31 December 2009, 95.56 per cent of the share capital of the Company was owned by the Lithuanian Ministry of Energy. As at 31 December 2010, 95.54 per cent of the share capital of the Company was owned by Lietuvos Energija AB which is controlled by the Lithuanian Ministry of Energy through Visagino atominė elektrinė UAB.

- Registration number: BĮ 01-249
- Company code: 110870933
- VAT payer's code: LT108709314
- Policy holder social security number: 853488
- Registered office: Elektrinės g. 21, Elektrėnai, Lithuania
- Authorised share capital: LTL 145,800,689

The Company's main objectives are credible and efficient production of electricity and heating energy.

Prices of electricity generated by the Company are regulated by the State Commission for Prices and Energy. The purchase price for electricity produced by the Company, which is required to be purchased under the public service obligations (PSO) scheme, for 2010 was fixed by the Commission at 29.31 ct/kWh (excl. VAT) (2009: 31.5 ct/kWh (excl. VAT)).

The Company's financial year coincides with the calendar year. The period of economic, commercial activity is unlimited.

The shares of the Company are traded on the current trading list of Vilnius Stock Exchange.

On 5 August 2003, the Company was issued the license of an independent energy supplier of unlimited validity (unless it is withdrawn or cancelled). The Company has the right to supply electricity.

The Company has long-term contracts on the sale of heating energy concluded with Kietaviškių Gausa AB and Elektrėnų Komunalinis Ūkis UAB.

Each year the Company enters into agreements for the supply of gas with suppliers. Gas prices are not fixed and denominated in the euros and the litas.

The Company is a member of the Lithuanian Electricity Association and takes an active role in the activities of the Union of the Electricity Industry-EURELECTRIC which represents the common interests of the electricity industry at pan-European level.

As at 31 December 2010, the Company had 442 (31 December 2009: 548) employees.

All amounts in these financial statements are presented in a local currency, the litas (LTL).

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

2 Significant accounting policies

2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

These financial statements were prepared on a historical cost basis, except for property, plant and equipment acquired until 1 January 2004 which is recorded at deemed cost, less accumulated depreciation and estimated impairment loss, emission rights and financial instruments carried at fair value.

2.2. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009.

The following new and amended IFRS and IFRIC interpretations are effective in 2010, but not currently relevant to the Company:

IFRS 3, 'Business combinations' (revised in January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

IAS 27, 'Consolidated and separate financial statements' (revised in January 2008; effective for annual periods beginning on or after 1 July 2009).

Eligible hedged items – Amendment to IAS 39, 'Financial instruments: Recognition and measurement' (effective with retrospective application for annual periods beginning on or after 1 July 2009).

Group cash-settled share-based payment transactions – Amendments to IFRS 2, 'Share-based payment' (effective for annual periods beginning on or after 1 January 2010).

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

IFRIC 12, 'Service concession arrangements' (effective for financial years beginning on or after 30 March 2009).

IFRIC 15, 'Agreements for the construction of real estate' (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009).

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for annual periods beginning on or after 1 October 2009).

IFRIC 17, 'Distribution of non-cash assets to owners' (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009).

IFRIC 18, 'Transfers of assets from customers' (effective prospectively to transfers of assets from customers received on or after 1 July 2009; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009).

LIETUVOS ELEKTRINĖ AB

Company code: 110870933, Elektrinės g. 21, LT-26108 Elektrėnai

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2010

(All amounts in LTL thousand unless otherwise stated)

2 Significant accounting policies (continued)

Embedded derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 31 December 2009).

Additional exemptions for first-time adopters - Amendments to IFRS 1 (effective for annual periods beginning on or after 1 January 2010).

IFRS 1, 'First-time adoption of International Financial Reporting Standards' (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 01 July 2009, with early adoption permitted).

Amendment to IFRS 5, 'Non-current assets held for sale and discontinued operations' (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009).

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

IAS 24, 'Related party disclosures' (amended 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; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Company is assessing impact of this amendment to its financial statements.

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 and liabilities. The Company is assessing impact of this new standard to its financial statements.

Classification of rights issues - Amendment to IAS 32, 'Financial instruments: Presentation' (effective for annual periods beginning on or after 1 February 2010). The amendment will not have any impact on the Company's financial statements.

Prepayments of a minimum funding requirement - Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). The amendment will not have any impact on the Company's financial statements.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective for annual periods beginning on or after 1 July 2010). The interpretation will not have any impact on the Company's financial statements.

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

Improvements to International Financial Reporting Standards (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011).

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 amendment will not have any impact on the Company's financial statements.

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Company code: 110870933, Elektrinės g. 21, LT-26108 Elektrėnai

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2010

(All amounts in LTL thousand unless otherwise stated)

2 Significant accounting policies (continued)

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 amendment will not have any impact on the Company's 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 financial statements.

Intangible assets

Intangible assets are recognised when the following criteria are met: it is probable that future economic benefits associated with the asset will flow to the Company; a reliable estimate of acquisition (production) cost of the asset can be made and it can be separated from the cost of other assets; the Company has the right to dispose and control it or restrict the ability of others to use it.

Intangible assets, except for emission rights (see a respective part of accounting policies), are stated at cost, less subsequent accumulated amortisation and impairment.

Amortisation is calculated using the straight-line method. Amortisation expenses are included in depreciation and amortisation expenses in the statement of comprehensive income.

Intangible assets are amortised over the estimated useful lives as follows:

Computer software	3
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Property, plant, and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment.

Construction in progress represents non-current fixed assets under construction. Such assets are carried at cost less estimated impairment losses. The cost includes design, construction works, plant and equipment being installed, and other directly attributable costs.

Assets with the useful life over one year are classified as property, plant and equipment. Gain or loss on disposal of property, plant and equipment is recognised in the statement of comprehensive income of the respective reporting period.

Depreciation (amortisation) of property, plant and equipment and intangible assets, except construction in progress, is calculated using the straight-line method over estimated useful lives of the assets. The estimated useful lives, residual values and depreciation/amortisation method are reviewed at each year-end to ensure that they are consistent with the expected pattern of economic benefits from these assets.

In assessing the remaining useful life of property, plant and equipment the Company's management takes into account the conclusions by the employees responsible for technical maintenance of non-current assets. The Company applies the following useful lives to its property, plant and equipment:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2010

(All amounts in LTL thousand unless otherwise stated)

2 Significant accounting policies (continued)

Buildings and constructions	
Buildings	30-75
Structures	10-70
Machinery and equipment	
Infrastructure (manifolds, pipelines)	10-50
Heat equipment	10-60
Electricity installations	10-50
Motor vehicles	6-50
Other property, plant and equipment	
Measuring equipment	5-30
Computer hardware, control and communication devices	5-20
Other equipment	5-40
Tools, spare parts and other assets	4-15

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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

Emission rights

Following the implementation of the EU Directive 2003/07/EC, the greenhouse gas emissions trading system was developed which came into force on 1 January 2005. The first operating phase of this system covered the period of 3 years which started in 2005 and ended in 2007; the second phase covers the period of 5 years starting in 2008 and ending in 2012, thus coinciding with the period detailed in the Kyoto Agreement. The system functions on the cap and trade basis. The governments of the EU Member States are required to fix the caps for the amounts of emission rights for each object involved in the system with respect to each operating phase of the system. These caps are specified in the National Allocation Plan to be developed by a responsible authority of each Member State (in Lithuania – the Ministry of Environment). The National Allocation Plan determines the annual emission rights amount (measured as tons of carbon dioxide equivalent) for each emission rights object and each operating phase and allocates annual emission rights.

A Member State has an obligation to allocate emission rights by 28 February of each year in accordance with the National Allocation Plan (a part of emission rights are set aside for new objects).

A Member State is to assure that a manager of each emission rights object submits data on actual amount of gas emitted to the environment by the object during the current calendar year not later than by 30 April of the next year.

Intangible assets

The EU emission rights are treated as intangible assets that were provided by the state in the form of non-monetary grant, or acquired separately that are accounted for at fair value at the moment of their issuance or transfer.

After the initial recognition emission rights are revalued at fair value using the active market prices. Increases in the carrying amount arising on the revaluation of emission rights are credited against revaluation reserve directly to equity and decreases exceeding the amount previously accumulated in reserves are recognised in the profit and loss. Once the emission rights are used, the revaluation reserve surplus is transferred to the retained earnings.

Government grant

The EU emission rights provided to the Company free of charge are treated as a non-monetary government grant which is recognised at fair value at the date of its receipt or issuance.

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Company code: 110870933, Elektrinės g. 21, LT-26108 Elektrėnai

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2010

(All amounts in LTL thousand unless otherwise stated)

2 Significant accounting policies (continued)

Subsequently, the government grant is recognised as income in proportion to the utilisation of emission rights during the validity period of emission rights or upon its disposal.

Provision for the utilisation of emission rights

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. Such a liability is a provision, which is measured at a value equal to expenses to be incurred for the settlement of this liability at the date of the preparation of the statement of financial position. The liability can be offset against intangible assets only when the quantity of emission is approved by the responsible regulating state authority. Changes in value of the liability are recognised in profit or loss and presented in the statement of comprehensive income.

Inventories

Inventories are stated at the lower of acquisition (production) cost or net realisable value.

The cost of inventories comprises the purchase price and related taxes (other than those subsequently recoverable), transportation, preparation for use and other costs directly attributable to the acquisition of inventories.

Cost is determined using the first-in, first-out (FIFO) method and the weighted average cost method (for fuel oil).

Net realisable value is determined taking into account breakdowns, obsolescence of inventories and other factors.

Impairment of non-financial assets

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2010

(All amounts in LTL thousand unless otherwise stated)

2 Significant accounting policies (continued)**Financial instruments**

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

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

The Company's financial assets include cash and short-term deposits, trade and other receivables, loans and investments in derivatives and are classified into two categories: financial assets at fair value through profit or loss and loans and receivables.

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

Financial assets at fair value through profit or loss

Such financial instruments are primarily held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are classified as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as gains less losses from derivative instruments.

Loans and receivables

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

Effective interest rate method

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2010

(All amounts in LTL thousand unless otherwise stated)

2 Significant accounting policies (continued)Impairment of financial assets

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

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

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

Derecognition of financial assets

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks, demand deposits and other highly liquid investments (up to 3 months original maturity) that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits in settlement bank accounts, and other short-term highly liquid investments with original maturity up to 3 months and bank overdrafts. Bank overdrafts are recognised in the statement of financial position as current borrowings.

Financial liabilities and equity instruments issuedRecognition of instruments as debt or equity instruments

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

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2 Significant accounting policies (continued)

Equity instruments

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

Financial liabilities

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

Other financial liabilities

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

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

Financial liabilities are classified as current liabilities unless the Company has unconditional right to defer settlement of the liability for at least 12 month after the end of the reporting period.

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

Derecognition of financial liabilities

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

Foreign currency

The Company records all amounts in the litas and the amounts in these financial statements are also presented in the national currency of the Republic of Lithuania, the litas (LTL).

Foreign currency transactions are translated into the litas using the exchange rate prevailing at the date of the transaction as established by the Bank of Lithuania, which approximates market rates. Monetary assets and liabilities are translated into the litas using the exchange rate prevailing at the balance sheet date. The applicable rates used for the principal currencies as at 31 December 2010 and 2009 were as follows:

2010		2009	
1 USD	= 2.6099 LTL	1 USD	= 2.4052 LTL
1 EUR	= 3.4528 LTL	1 EUR	= 3.4528 LTL
10 SEK	= 3.8407 LTL	10 SEK	= 3.3449 LTL

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognised in the statement of comprehensive income when they arise. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities to the litas are recognised in the statement of comprehensive income.

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2 Significant accounting policies (continued)**Grants**Asset-related grants

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

Income-related grants

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

Provisions

Provisions are recognised then and only then the Company has a present obligation (legal or constructive) as a result of past event, and 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 Company expects that provision amount in part or in full will be compensated, e.g. by insurance, compensation to be received is recorded as a separate asset, but only when it is virtually certain. Expenses related to provisions are recorded in the statement of comprehensive income, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance costs.

Provisions for pension payments

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

Revenue recognition

Revenue is recognised when it is probable that the enterprise will receive economic benefit associated with the transaction and when a reliable estimate of the amount of revenue can be made. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, returns of goods and discounts. The following specific recognition criteria must also be met before revenue is recognised:

Sales revenue

Revenue from sale of electricity, heating energy and electricity reserve is recognised on a monthly basis referring to the readings of measuring devices (an accrual basis). The Company recognises revenue from electricity on the basis of regulated price tariffs and the annual level of production volume as all electricity produced by the Company is supplied under the public service obligation (PSO) scheme.

Sales of services

Revenue from services rendered is recognised when a transaction is completed or a reliable estimate of the stage of completion at the balance sheet date can be made.

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2 Significant accounting policies (continued)**Sales of goods**

Revenue from good sold is recognised when significant risk and rewards of ownership have been transferred to the buyer and income can be reliably estimated.

Interest

Interest income is recognised by the effective interest rate method considering the outstanding amount and the applicable interest rate.

Recognition of expenses

Expenses are recognised on an accrual basis.

Borrowing costs

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

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

Employee benefits**(a) Social security contributions**

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

(b) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan 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 discounted to present value.

(c) Bonus plans

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

Accounting for lease

Lease is recognised as financial lease, when all the risks and benefits incidental to ownership of the leased item are transferred to the lessee. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

2 Significant accounting policies (continued)

The Company as a lessor

When assets are leased out under an operating lease, the asset is included in the statement of financial position within the item of property, plant and equipment. Such assets are depreciated over the estimated useful lives. Lease income is recognised on a straight-line basis over the lease term.

Taxes

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

The current year income tax charge is based on profit for the year as modified by the items of income or expenses that are not subject to tax or deductible. Tax rates used to compute income tax expense are those applicable as of the date of the financial statements.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available for the Company to realise all or part of deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited in other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or equity, respectively.

Deferred tax assets and liabilities are offset when they are related to profit taxes levied by the same tax authority and when the Company intends to set off tax assets against tax liabilities.

Segment information

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

The Company has a single reportable business segment, i.e. production of electricity and heating energy. The chief operating decision-maker monitors performance based on the financial statements prepared using the same accounting policies as used for the IFRS financial statements.

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2 Significant accounting policies (continued)**Dividends**

Dividend distribution is recognised in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Related parties

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

Earnings per share

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

As at 31 December 2010 and 31 December 2009 as well as during the periods ending at these dates, the Company had no dilutive options outstanding, therefore, basic and diluted earnings per share do not differ.

Contingencies

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

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

Post-balance-sheet events

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

Offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain accounting standards specifically require such set-off.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2010

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2 Significant accounting policies (continued)**Restatement of comparatives**

In 2010, the Company identified an error made in respect of the items of construction in progress and accounts payable and performed an adjustment of LTL 53,021 thousand in the statement of financial position as at 31 December 2009 (31 December 2008: LTL 12,217 thousand) and reduced the items of construction in progress and accounts payable by this amount. The error occurred as a result of improper recording of increases in construction in progress due to which the items of construction in progress and accounts payable were overstated:

ASSETS	31 December 2009	Restatement of construction in progress and accounts payable	Reclassifi- cation of prepayments	31 December 2009 (restated)
Non-current assets				
Property, plant and equipment	1,872,977	(53,021)	(144,854)	1,675,102
Prepayments for property, plant, equipment	-	-	144,854	144,854
Current liabilities				
Trade payables	98,952	(53,021)	-	45,931
ASSETS	1 January 2009	Restatement of construction in progress and accounts payable	Reclassifi- cation of prepayment s	1 January 2009 (restated)
Non-current assets				
Property, plant and equipment	1,485,759	(12,217)	(21,998)	1,451,544
Prepayments for property, plant, equipment	-	-	21,998	21,998
Current liabilities				
Trade payables	74,017	(12,217)	-	61,800

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2 Significant accounting policies (continued)**Restatement of comparatives (continued)**

Furthermore, when preparing the 2010 financial statements the Company noted that a non-monetary transaction related to grants (Note 27) was not eliminated in the 2009 statement of cash flows and also noted that cash flows related to acquisition of property, plant and equipment were presented incorrectly.

	31 December 2009	Non- monetary grants received	Property, plant and equipment adjustment	31 December 2009 (restated)
Net cash from operating activities	88,947	-	32,815	121,762
Net cash used in investing activities	(377,811)	385,768	(32,815)	(24,858)
Net cash from financing activities	371,513	(385,768)	-	(14,255)

During the preparation of these financial statements the Company reviewed the classification of certain line items and performed the following reclassifications:

- Prepayments for property, plant and equipment were reclassified from construction in progress to a separate line item in the statement of financial position (31 December 2009: LTL 144,854 thousand; 31 December 2008: LTL 21,998 thousand);
- Deferred income tax assets were offset against deferred income tax liabilities (31 December 2009: LTL 289 thousand; 31 December 2008: LTL 427 thousand (Note 13));
- Classification of current liabilities was changed (trade payables and other accounts payable were presented in separate line items).

The Company also reviewed and changed the presentation of the statement of comprehensive income (previously, for the purpose of the statement of comprehensive income, expenses were presented by function and presently they are classified by nature).

Respective comparative line items of the statements of financial position and comprehensive income were reclassified accordingly.

3 Critical accounting estimates and assumptions

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and contingencies. The areas where estimates are significant to these financial statements include depreciation of and evaluation of impairment for property, plant and equipment, evaluation of impairment for accounts receivable, evaluation of provisions and estimation of inventory at their net realisable value. Future events may cause the assumptions used in arriving at the estimates to change. The effect of such changes in the estimates will be recorded in the financial statements when determined.

Underlying estimates and assumptions concerning the future that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in subsequent periods are addressed below.

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3 Critical accounting estimates and assumptions (continued)

Depreciation rates of property, plant and equipment

In assessing the remaining useful life of property, plant and equipment the Company's management takes into account the conclusions by the employees responsible for technical maintenance of non-current assets.

Impairment of property, plant and equipment

Each year property, plant and equipment is tested for impairment following the guidance for impairment of non-financial assets described in Note 2. The recoverable amount of the cash-generating unit is determined based on value-in-use calculations.

As at 31 December 2010 and 31 December 2009, the Company determined that no indications of impairment for property, plant and equipment existed in view of probable resolution of significant uncertainties relating to future electricity tariffs and production volumes. These material uncertainties arises from likely changes in future electricity tariffs, regulated profit margin as well to changes effective from 1 January 2011 to the PSO scheme, which impacts the volumes of the production. Under the new PSO scheme the Company will received PSO service fees only for annual electricity actually produced.

Accordingly, the Company did not perform any impairment calculations in respect of property, plant and equipment and believes that impairment adjustments might be necessary after the resolution of these uncertainties.

Determination of impairment of trade and other receivables

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.

Inventory written-down to net realisable value

Write-down of inventory to the net realisable value was determined based on the management's estimates on inventory obsolescence and estimated selling prices. This determination requires significant judgement. Judgement is exercised based on historical and estimated usage of spare parts and materials as well as estimated selling price and other factors. The estimates used in calculation are consistent with the accounting policy of parent company Lietuvos energija AB.

Tax audits

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

Provision for the utilisation of emission rights

The Company estimates the provision for emission rights based on actual quantity of emission made during the reporting period multiplied by the market price of one emission right unit. The actual quantity off emission is approved by the responsible regulating state authority within 4 months after the year-end. Based on the experience, the management of the Company does not expect any material differences between the estimated provision amounts as at 31 December 2010 and the amounts, which will be approved in 2011.

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3 Intangible assets

The structure of the Company's intangible assets as at 31 December 2010 and 31 December 2009 is as follows:

	<u>Computer software</u>	<u>Emission rights</u>	<u>Total</u>
At 31 December 2008			
Cost or revaluated amount	500	28,926	29,426
Accumulated amortisation	(387)	-	(387)
Net book amount at 31 December 2008	113	28,926	29,039
Year ended 31 December 2009			
Opening net book amount	113	28,926	29,039
Additions – grant received (Note 11)	-	22,361	22,361
Other additions	-	6,044	6,044
Emission rights utilised (Note 15)	-	(30,250)	(30,250)
Amortisation charge	(51)	-	(51)
Revaluation through other comprehensive income	-	118	118
Net book amount at 31 December 2009	62	27,199	27,261
At 31 December 2009			
Cost or revaluated amount	413	27,199	27,612
Accumulated amortisation	(351)	-	(351)
Net book amount at 31 December 2009	62	27,199	27,261
Year ended 31 December 2010			
Opening net book amount	62	27,199	27,261
Additions – grant received (Note 11)	-	22,946	22,946
Other additions	99	91,144	91,243
Disposals	-	(40,579)	(40,579)
Emission rights utilised (Note 15)	-	(26,909)	(26,909)
Amortisation charge	(41)	-	(41)
Revaluation expenses	-	(16,937)	(16,937)
Net book amount at 31 December 2010	120	56,864	56,984
At 31 December 2010			
Cost or revaluated amount	462	56,864	57,326
Accumulated amortisation	(342)	-	(342)
Net book amount at 31 December 2010	120	56,864	56,984

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4 Property, plant, and equipment

The structure of the Company's property, plant and equipment as at 31 December 2010 and 31 December 2009 is as follows:

	Buildings and structures	Machinery and equipment	Motor vehicles	Other PP&E	Construct- ion in progress	Total
At 31 December 2008						
Cost	217,394	889,066	2,728	253,012	505,320	1,867,520
Accumulated depreciation	(56,496)	(299,845)	(1,935)	(57,700)	-	(415,976)
Net book amount at 31 December 2008	160,898	589,221	793	195,312	505,320	1,451,541
Year ended 31 December 2009						
Opening net book amount	160,898	589,221	793	195,312	505,320	1,451,541
Additions	65	13,186	285	22,865	216,640	253,041
Disposals and write-offs	(203)	(1,682)	-	(382)	-	(2,267)
Depreciation charge	(3,049)	(18,290)	(126)	(5,751)	-	(27,216)
Net book amount at 31 December 2009	157,711	582,435	952	212,044	721,960	1,675,102
At 31 December 2009						
Cost	217,256	900,570	3,013	275,495	721,960	2,118,294
Accumulated depreciation	(59,545)	(318,135)	(2,061)	(63,451)	0	(443,192)
Net book amount at 31 December 2009	157,711	582,435	952	212,044	721,960	1,675,102
Year ended 31 December 2010						
Opening net book amount	157,711	582,435	952	212,044	721,960	1,675,102
Additions	-	-	32	2,684	694,823	697,539
Write-offs	(268)	76	-	(125)	-	(317)
Transferred from inventories	-	4,233	-	-	-	4,233
Reclassification between groups	27,322	4,501	-	485,413	(517,236)	-
Depreciation charge	(3,081)	(18,670)	(125)	(9,225)	-	(31,101)
Net book amount at 31 December 2010	181,684	572,575	859	690,791	899,547	2,345,456
Net book amount at 31 December 2010						
Cost	244,310	909,380	3,045	763,467	899,547	2,819,749
Accumulated depreciation	(62,626)	(336,805)	(2,186)	(72,676)	-	(474,293)
Net book amount at 31 December 2010	181,684	572,575	859	690,791	899,547	2,345,456

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5 Property, plant, and equipment (continued)

As at 31 December 2010, the real estate and machinery pledged as security for bank borrowings (Note 12) amount to LTL 303,156 thousand (As at 31 December 2009 – LTL 311,833 thousand).

In 2010, interest capitalised at an average interest rate of 4.11% (2009 – 3.5%) on borrowings related to the development of property, plant and equipment amounted to LTL 14,945 thousand (2009: LTL 3,893 thousand).

The key investment projects completed by the Company in 2010 are as follows:

<u>Project</u>	<u>Value, LTL thousand</u>
Facilities for the removal of sulphur dioxide from emissions and catching of particulate matter	330,783
Installation of low nitrogen gas burners and heating equipment	116,030
Modernisation of the monitoring system of blocks	64,824
Construction of railway 5.5a, 10	1,130
Excitation system of a turbo-generator	1,004
Replacement of 0.4 kV distribution equipment in blocks 1–4	988
Replacement of oil circuit-breakers in blocks 5–8	845
Construction of railway 115	181
Computerisation of the measurement process of the fuel level in fuel oil reservoirs	178

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6 Inventories

Inventories as at 31 December 2010 and 2009 include the following:

	<u>At 31 December 2010</u>	<u>At 31 December 2009</u>
Fuel oil	118,942	23,556
Spare parts	11,309	14,682
Materials, consumables, equipment	4,140	3,855
Low-value stock items	<u>71</u>	<u>207</u>
Less: Write-down to net realisable value	(8,992)	(22)
Carrying amount	<u>125,470</u>	<u>42,278</u>
Including: value of fuel oil pledged to DnB Nord AB bank (note 12)	<u>26,000</u>	<u>19,000</u>

As at 31 December 2010, provisions for inventory write-down to net realisable value were established in respect of slow-moving and obsolete inventories stored at warehouses. The cost of inventories written down to net realisable value amounts to LTL 10,860 thousand.

In 2010, the cost of materials, spare parts and stock items recognised as expense in the Income statement amounted to LTL 9,459 thousand (in 2009 – LTL 9,520 thousand).

Movements in impairment of inventories during the years ended 31 December 2010 and 31 December 2009 are shown in the table below:

	<u>2010</u>	<u>2009</u>
Provision for impairment of inventories at 1 January	(22)	(22)
Write-down of inventories during the reporting period	(8,992)	-
Reversal of inventory write-down	<u>22</u>	<u>-</u>
Provision for impairment of inventories at 31 December	<u>(8,992)</u>	<u>(22)</u>

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7 Trade and other receivables

The Company's trade and other receivables as at 31 December 2010 and 2009 were as follows:

	At 31	At 31
	December 2010	December 2009
Trade receivables	56,428	40,176
VAT receivable	11,997	2,264
Other receivables	2,930	203
Total	71,355	42,643
Less: provision for impaired receivables	(132)	(141)
Carrying amount	71,223	42,502

The fair value of trade and other receivables approximates their carrying amounts.

Movements in impairment of accounts receivable in the years ended 31 December 2010 and 31 December 2009 were as follows:

	2010	2009
Carrying amount at 1 January	(141)	(6,927)
Reversal of doubtful receivables	15	6,918
Write-down of doubtful receivables	-	-
Recognised as doubtful receivables in the reporting period	(6)	(132)
Carrying amount at 31 December	(132)	(141)

In view of the dispute that arose between the Company and Lietuvos Energija AB in 2008 regarding the amount receivable of LTL 6,527 thousand, the Company established the provision for bad debts and filed a claim to the court. However, in 2009 Vilnius County Court passed a decision on the approval of the settlement agreement regarding the dispute. After the mutual agreement of the parties and the court's approval, the provision for bad debts relating to Lietuvos Energija AB of LTL 6,527 thousand was reversed in 2009. Moreover, in 2009 the Company recovered LTL 391 thousand of debts from other companies in respect of which provisions for bad debts were established.

The ageing analysis of the Company's accounts receivable that were not recognised as past due or were recognised as past due but not impaired is as follows:

	At 31	At 31
	December 2010	December 2009
Not past due	71,200	42,082
Past due up to 30 days	-	132
Past due from 30 to 60 days	4	62
Past due more than 60 days	19	226
Carrying amount	71,223	42,502

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8 Cash and cash equivalents

Cash and cash equivalents comprise as follows:

	At 31 December 2010	At 31 December 2009
Cash at bank and in hand	2,117	2,534
Term deposit in LTL at Swedbank AB	11,751	-
Overnight deposit at Swedbank AB	-	60,585
Term deposit in LTL, maturity date of 29 January 2010	-	38,096
Term deposit in LTL, maturity date of 20 January 2010	-	30,028
Deposited funds	-	10,960
Carrying amount	13,868	142,203

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

According to the loan agreement signed with DnB NORD AB bank, current and future cash inflows into the bank account were pledged (note 12). As at 31 December 2010, cash balances in the account at DnB NORD AB bank amounted LTL 1,991 thousand (31 December 2009: LTL 2,139 thousand).

According to the syndicated loan agreement signed with Swedbank AB, SEB AB bank, Nordea Bank Finland Plc, Lithuania Branch and DnB NORD AB bank, current and future cash inflows into the accounts at these banks were pledged (note 12). The cash balances in these accounts amount to LTL 126 thousand as at 31 December 2010 (LTL 395 thousand as at 31 December 2009).

Cash and cash equivalents in the statement of cash flows comprise as follows:

	At 31 December 2010	At 31 December 2009
Cash at bank and in hand	2,117	2,534
Deposits in banks	11,751	139,669
Bank overdraft (note 12)	(12,987)	-
	881	142,203

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9 Share capital

As at 31 December 2010, the share capital of the Company was LTL 145,800,689 and it was divided into 145,800,689 ordinary registered shares with the par value of LTL 1 each. All the shares are fully paid. The highest share price at the Stock Exchange session in 2010 was LTL 1.67 per share (2009: LTL 1.83), the lowest – LTL 1.11 per share (2009: LTL 0.72). The number of shareholders as at 31 December 2010 was 4,715 (2009: 4,564).

Shareholders	At 31 December 2010		At 31 December 2009	
	Share capital (LTL)	%	Share capital (LTL)	%
Lietuvos Energija AB	139,292,961	95.54	-	-
Others	6,507,728	4.46	6,480,208	4.44
State of Lithuania represented by the Ministry of Energy	-	-	139,320,481	95.56
Total	145,800,689	100	145,800,689	100

10 Legal and other reserves

	Reserve for invest- ments	Reserve for support	Non- current asset- related reserves	Revalua- tion reserve	Total
Balance at 31 December 2008	151,219	(44)	664,669	-	815,844
Other comprehensive income				118	118
Reserves used	(34,316)	-	-	-	(34,316)
Balance at 31 December 2009	116,903	(44)	664,669	118	781,646
Balance at 31 December 2009	116,903	(44)	664,669	118	781,646
Emission rights utilised	-	-	-	(118)	(118)
Transfer to reserves	-	24	-	-	24
Balance at 31 December 2010	116,903	(20)	664,669	-	781,552

In 2009, the Company's shareholders resolved to cover losses relating to 2008 by making a transfer of LTL 34,316 thousand from other reserves to retained earnings.

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10 Legal and other reserves (continued)

Upon the transition to IFRS on 1 January 2004 the Company's equity increased by LTL 721,107 thousand. In order to impose restrictions on the ability to distribute this increase a reserve related to non-current assets was established amounting to LTL 664,669 thousand as at 31 December 2010 and 2009.

As at 31 December 2010 and 2009, the Company's reserve for investments was LTL 116,903 thousand. It was established to accrue funds for the construction and development of non-current assets. A decision on the use of these funds is passed by the Company's shareholders.

A legal reserve is a compulsory reserve under the legislation of the Republic of Lithuania. Annual transfers of 5 per cent of net profit to be appropriated are required until the reserve reaches 10 per cent of the authorised share capital. This reserve can only be used for the reduction of accumulated losses.

The general meeting of shareholders held on 29 April 2010 approved the payment of a dividend in respect of the year ended 31 December 2009 of LTL 0.07 per share, amounting to a total dividend of LTL 10,210 thousand. The total amount of dividends paid to shareholders in 2010 was LTL 10,088 thousand.

11 Grants

Balances of grants as at 31 December 2010 and their use during the reporting period are as follows:

	Grants relating to assets (fuel combustion facilities and other assets)	Grants relating to assets (projects on restoration and improvement of environmental and safety norms)	Grants relating to emission rights	Total
Balance at 31 December 2008	1,757	331,553	-	333,310
Depreciation of property, plant and equipment	(374)	(6)	-	(380)
Grants received	-	385,775	22,361	408,136
Emission rights utilised	-	-	(22,361)	(22,361)
Balance at 31 December 2009	1,383	717,322	-	718,705
Balance at 31 December 2009	1,383	717,322	-	718,705
Depreciation of property, plant and equipment	(982)	(1,074)	-	(2,056)
Grants received	-	128,786	22,946	151,732
Emission rights utilised	-	-	(22,946)	(22,946)
Balance at 31 December 2010	401	845,034	-	845,435

In 2010, grants relating to assets decreased by LTL 2,056 thousand (2009: LTL 380 thousand), i.e. by the depreciation charge of property, plant and equipment. For the purpose of the statement of comprehensive income, depreciation expenses of property, plant and equipment were reduced by this amount.

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11 Grants (continued)

In 2010, the Company was allocated LTL 128,786 thousand (2009: LTL 385,775 thousand) from the International Foundation for the Support of Decommissioning of Ignalina Nuclear Power Plant. In 2010, a portion of this amount of LTL 16,832 thousand (2009: LTL 33,925 thousand) was used for the implementation of the project on the construction of facilities for the removal of sulphur dioxide from emissions and catching of particulate matter and the environmental and modernisation project; and a portion of this amount of LTL 111,954 thousand (2009: LTL 351,850 thousand) was used to finance the construction of a new block of 400 MW combined cycle gas turbine.

In addition, in 2010, the Company received a grant of LTL 5,795 thousand from the International Foundation for the Support of Decommissioning of Ignalina Nuclear Power Plant for the performance of research works relating to the construction of the underground gas storage facility. The remaining portion of the grant of LTL 2,893 thousand will be received in 2011.

12 Borrowings

As at 31 December 2010 and 2009, bank borrowings comprised as follows:

	At 31 December 2010	At 31 December 2009
Non-current borrowings		
Syndicated loan (Swedbank AB, SEB AB, Nordea Bank Finland Plc, Lithuania Branch and DnB NORD AB) in EUR, to be repaid by 9 November 2020	88,447	102,700
Loan from the European Bank for Reconstruction and Development in EUR, to be repaid by 18 February 2025	191,521	-
Syndicated loan (Swedbank AB, SEB AB, Nordea Bank Finland Plc, Lithuania Branch, DnB NORD AB and Danske Bank A/S) in EUR, to be repaid by 3 June 2016	217,625	-
Loan from DnB NORD AB, in EUR, to be repaid by 1 May 2013	5,571	9,286
Total non-current borrowings	503,164	111,986
Current borrowings		
Syndicated loan (Swedbank AB, SEB AB, Nordea Bank Finland Plc, Lithuania Branch, DnB NORD and AB Danske Bank A/S) in EUR, to be repaid by 9 November 2020	14,253	14,253
Overdraft from Swedbank AB, the expiry date is 1 March 2011	12,987	-
Loan from DnB NORD AB, in EUR, to be repaid by 1 May 2013	3,714	3,714
Loan from the European Bank for Reconstruction and Development, accrued interest	874	-
Total current borrowing	31,828	17,967

The Company's non-current and current borrowings comprised:

On 1 July 2003, a loan agreement was concluded with the bank DnB NORD AB for the amount of EUR 3,765 thousand (LTL 13,000 thousand) and the repayment date of 1 May 2013.

On 30 June 2004, a loan agreement and related amendments were concluded with Swedbank AB, SEB AB, Nordea Bank Finland Plc, Lithuania Branch and DnB NORD AB for the amount of EUR 49,000 thousand (LTL 169,187 thousand) and the repayment date of 9 November 2020.

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12 Borrowings (continued)

On 31 March 2010, a loan agreement was concluded with Swedbank AB, SEB AB, Nordea Bank Finland Plc, Lithuania Branch and DnB NORD AB and Danske Bank A/S for the amount of EUR 81,400 thousand (LTL 281,058 thousand) and the repayment date of 3 June 2016.

On 18 February 2010, an agreement was concluded with the European Bank for Reconstruction and Development for the loan of EUR 71,000 thousand (LTL 245,149 thousand) and the repayment date of 18 February 2025.

The withdrawn amount of the overdraft is LTL 12,988 thousand. The overall limit of the overdraft is LTL 13,000 thousand. The overdraft agreement expires on 1 March 2011.

As at 31 December 2010, based on above agreements the undrawn borrowings amount to LTL 117,061 thousand (as at 31 December 2009 – none).

The Company has assumed the following obligations under the loan agreements concluded:

The Company has assumed an obligation to DnB NORD AB to pledge all current and future cash inflows into the Company's accounts opened at this bank (Note 8). The Company also pledged fuel held under the right of ownership and stored at Elektrinės St. 21, Elektrėnai, for the market price not lower than LTL 26,000 thousand (Note 6). Assets pledged should be insured by the insurer agreed with the bank and indicating the bank as a beneficiary.

The Company has assumed an obligation to Swedbank AB, SEB AB, Nordea Bank Finland Plc, Lithuania Branch, DnB NORD AB to pledge to the banks acceptable non-current assets with the carrying amount not lower than LTL 340 million (Note 5); all monetary balances in all accounts held at banks registered in Lithuania (note 8); it is also committed to carry out turnovers only through the accounts held at these banks;

The Company has assumed an obligation to Swedbank AB, SEB AB, Nordea Bank Finland Plc, Lithuania Branch, DnB NORD AB and Danske Bank A/S to pledge the entire Project-related and consequently developed property, plant equipment assets (new block of 400 MW combined cycle gas turbine), all current and future monetary balances in all accounts of the Company opened and to be opened at the banks, all property rights arising from all property insurance contracts. Until the constructions of new block of 400 MW combined cycle gas turbine are not completed, these assets under constructions are not pledged.

In addition to obligations under the loan agreements, the Company also has to comply with certain financial and non-financial debt covenants. As at 31 December 2010 the Company was not in compliance with debt financial covenants relating to financial debts and EBIDTA ratio and operating cash flows. The management of the Company believes that as it is unlikely that the lenders will take any actions in respect of those loans, where covenants were breached, therefore the classification of LTL 409,146 thousand loans as at 31 December 2010 as non-current based on contractual maturities is appropriate. This judgement of management is based on the fact that as disclosed in Note 28, on 1 August 2011 the Company is planned to be merged to its parent Lietuvos energija AB. Lietuvos energija AB does not have any borrowings as at 31 December 2010 and therefore the financial situation of the newly merged entity at the end of 2011 will be stronger.

As at 31 December 2009 the Company was in compliance with all debt covenants.

As at 31 December 2010, the fair value of borrowings was approximately equal to LTL 536,119 thousand (as at 31 December 2009 – LTL 116,236 thousand).

As at 31 December 2010 and 31 December 2009, the Company had no other valid unused loan agreements.

Bellow is information on interest rate reprising periods.

	At 31 December 2010	At 31 December 2009
From 1 to 3 month	230,612	-
From 3 to 6 month	304,380	129,953
Total borrowings	534,992	129,953

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13 Income tax

Income tax expense comprised as follows:

	<u>2010</u>	<u>2009</u>
Income tax expense components		
Current income tax	(7,048)	(13,995)
Adjustment of previous year income tax	1,279	3
Deferred income tax	<u>4,029</u>	<u>41,567</u>
Income tax income/(expense) for the year	<u>(1,740)</u>	<u>27,575</u>

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

	<u>2010</u>	<u>2009</u>
Profit before income tax	7,216	62,976
Income tax calculated at a tax rate of 15% (2009: 20%)	1,082	12,595
Tax effect of income not subject to tax	(139)	(4,342)
Tax effect of expenses not deductible for tax purposes	2,076	1,963
Adjustment of previous year income tax	(1,279)	(3)
Effect of deferred income tax rate change	-	<u>(37,788)</u>
Income tax	<u>1,740</u>	<u>(27,575)</u>

Movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax (assets)/liabilities	Vacation reserve and other accruals	Accelerat ed depreciat ion	Assets carried at deemed cost	Total
At 1 January 2009	<u>(427)</u>	<u>4,455</u>	<u>150,904</u>	<u>154,932</u>
Recognised in the statement of comprehensive income	<u>138</u>	<u>(1,275)</u>	<u>(40,430)</u>	<u>(41,567)</u>
At 31 December 2009	<u>(289)</u>	<u>3,180</u>	<u>110,474</u>	<u>113,365</u>
At 31 December 2009	<u>(289)</u>	<u>3,180</u>	<u>110,474</u>	<u>113,365</u>
Recognised in the statement of comprehensive income	<u>(1,310)</u>	<u>(179)</u>	<u>(2,540)</u>	<u>(4,029)</u>
At 31 December 2010	<u>(1,599)</u>	<u>3,001</u>	<u>107,934</u>	<u>109,336</u>

Deferred income tax to be realised within 12 months amounts to LTL 4,318 thousand (31 December 2009: 3,008 thousand).

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14 Trade payables

The Company's trade payables comprise as follows:

	At 31 December 2010	At 31 December 2009 (restated)	At 1 January 2009 (restated)
Amounts due for gas and fuel oil	29,338	25,840	9,009
Amounts due for investments in property, plant and equipment	42,513	19,465	52,447
Amounts due for contractual works, other services	270	168	-
Amounts due for materials	2,880	458	344
Total	75,001	45,931	61,800

The fair value of trade payables approximates their carrying amounts.

15 Provisions for emission rights

As at 31 December 2010, provisions for emission rights were accounted for as follows:

	Provisions for emission rights
At 31 December 2008	28,512
Provisions for emission rights used*	26,909
Emission rights utilised (Note 4)**	(28,512)
At 31 December 2009	26,909
Provisions for emission rights used*	54,212
Emission rights utilised (Note 4)	(26,909)
31 December 2010	54,212

*For the purpose of the statement of comprehensive income, expenses related to provisions for emission rights utilised are stated less the amounts of government grants (Note 11).

**Additional expenses related to provisions for emission rights of LTL 1,739 thousand for 2008 were also recognised in the statement of comprehensive income for 2009.

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16 Other accounts payable and liabilities

The Company's other accounts payable and current liabilities comprised as follows:

	At 31	At 31
	December 2010	December 2009
Dividends payable	1,099	977
Vacation reserve	929	1,924
Accrued other charges	849	68
Social security contributions payable	810	1,004
Taxes payable	663	436
Other payables and current liabilities	1,723	838
Total	6,073	5,247

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

17 Sales revenue and other income

The Company's sales revenue for the years ended 31 December consisted of revenue from sale of electricity, heating energy and other services:

	2010	2009
Electricity generation	717,079	289,916
Cold capacity reserve	39,300	115,269
Heating energy generation	13,035	9,727
Other income	1,644	3,161
Total	771,058	418,073

In 2010, the Company had one operating segment.

All the Company's assets are located in Lithuania. All sale transactions are conducted in Lithuania.

In 2010, the Company's revenue received from its one major client amounted to LTL 752,244 thousand (2009: LTL 396,022 thousand).

In 2010, according to the effective PSO scheme the Company received revenue from electricity under PSO scheme based on the annual approved volume of sponsored production level irrespective of the volume of electricity produced.

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18 Wages and related expenses

The Company's wages and related expenses for the years ended 31 December included as follows:

	<u>2010</u>	<u>2009</u>
Payroll	22,802	28,494
Social security expenses	8,400	10,239
Termination benefits	3,250	3,124
Total	<u>34,452</u>	<u>41,857</u>

19 Other expenses

The Company's other expenses for the years ended 31 December consisted of:

	<u>2010</u>	<u>2009</u>
Tax expenses	2,580	2,335
Payments according to collective agreement	1,067	1,121
Water treatment expenses	891	866
Security expenses	880	827
Transportation expenses	789	783
Insurance expenses	744	824
Business trips	317	283
Loss on disposal of PP&E	316	2,267
Expenses for storage of materials	158	1,177
Release of impairment for receivables (note 7)	(7)	(6,786)
Other expenses	2,462	4,407
Total	<u>10,197</u>	<u>8,104</u>

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20 Finance income

The Company's finance income for the years ended 31 December included as follows:

	<u>2010</u>	<u>2009</u>
Interest income	189	290
Other income	38	64
Foreign exchange gain , net	-	3,222
Total	<u>227</u>	<u>3,576</u>

21 Finance costs

The Company's finance costs for the years ended 31 December included as follows:

	<u>2010</u>	<u>2009</u>
Foreign exchange loss, net	(3,070)	-
Interest expense*	(1,999)	(768)
Other finance costs	(1,279)	(203)
Total	<u>(6,348)</u>	<u>(971)</u>

*In addition to interest expense recognised as finance cost, interest expenses in the amount of LTL 14,945 thousand (2009: LTL 3,893 thousand) were capitalised on qualifying property, plant and equipment (Note 5).

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22 Related-party transactions

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

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministry of Energy the Republic of Lithuania	4,838	55,110	72,050	752,053
Parent company (Visagino Atominė Elektrinė AB) May – August 2010	-	-	1	-
Parent company (Lietuvos Energija AB) September – December 2010	-	34	47	191
Total	4,838	55,144	72,098	752,244

The Company's transactions with related parties conducted during 2009 and the balances arising on these transactions as at 31 December 2009 are presented below:

Related parties	Amounts payable and advance amounts received	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministry of Energy the Republic of Lithuania	12	1,756	91	14,860
Parent company (Visagino Atominė Elektrinė AB) May – August 2010	-	-	-	-
Parent company (Lietuvos Energija AB) September – December 2010	103	35,275	1,963	381,162
Total	115	37,031	2,054	396,022

The reversal of impairment of receivables from Lietuvos energija AB in 2009 is disclosed in Note 7.

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22 Related-party transactions (continued)**Payments to key management personnel****Payments to key management personnel**

	<u>2010</u>	<u>2009</u>
Employment-related payments	457	693
Termination benefits	423	-
Number of key management personnel (average annual)	3	3

23 Basic and diluted earnings per share (in LTL)

In 2010 and 2009, basic and diluted earnings per share were as follows:

	<u>2010</u>	<u>2009</u>
Net profit (loss) attributable to the Company's shareholders in thousand LTL	5,476	90,550
Weighted average number of shares (units)	<u>145,800,689</u>	<u>145,800,689</u>
Basic and diluted earnings per share in LTL	<u>0.04</u>	<u>0.62</u>

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24 Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (foreign exchange risk, fair value interest rate risk and cash flow interest rate risk and securities price risk). In managing these risks the Company seeks to mitigate the effect of factors which could make a negative affect on the financial performance of the Company.

Financial instruments by category:

	At 31	At 31
	December 2010	December 2009
Financial assets		
Long term receivables	756	837
Trade and other receivables	59,226	40,176
Cash and cash equivalents	13,868	142,203
Loans and receivables	73,850	183,278
Other non-current financial assets	875	934
Financial assets at fair value through profit and loss	875	934
Total	74,725	184,212
 Financial liabilities at amortised costs		
Borrowings	534,992	129,953
Trade payables	75,001	45,931
Other accounts payable and liabilities	1,723	838
Total	611,716	176,722

Credit risk

As at 31 December 2010 and 31 December 2009, credit risk was related to the following items:

	At 31	At 31
	December 2010	December 2009
Financial assets	74,725	184,212
Total	74,725	184,212

The credit risk of the Company related to the accounts receivable is limited because the main buyers are reliable customers. As at 31 December 2010 and 31 December 2009, trade receivables neither past due nor impaired were of high credit quality as the majority of these receivables (2009: 92 per cent; 2010: 93 per cent) is due from the entities controlled by the Ministry of Energy of the Republic of Lithuania, namely companies of Visagino Atominė Elektrinė UAB group.

The credit risk on cash in banks is limited because the Company conduct transactions with the banks with high credit ratings assigned by international credit rating agencies.

The Company holds cash balances and term deposits in accounts of the major Lithuanian banks assigned with higher than A - external credit rating by the rating agency Fitch Ratings.

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24 Financial risk management (continued)**Liquidity risk**

The liquidity risk is managed by planning the cash flows of the Company. In order to mitigate the liquidity risk, cash flow forecasts are prepared. All non-current borrowings of the Company are designated for the development of property, plant and equipment, undrawn borrowings balances disclosed in Note 12.

The Company's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as at 31 December 2010 were 1.24 and 0.50, respectively (31 December 2009: 2.32 and 1.89, respectively).

The table below summarises the maturity profile of the Company's non-derivative financial liabilities based on contractual undiscounted payments.

Company	<u>Within the first year</u>	<u>Within the second year</u>	<u>Within third – fifth years</u>	<u>After five years</u>
At 31 December 2010				
Borrowings	56,799	42,475	219,999	372,859
Trade and other payables	76,724	-	-	-
At 31 December 2009				
Borrowings	20,172	19,859	52,048	47,020
Trade and other payables	46,769	-	-	-

Market riskInterest rate risk

Income and cash flows of the Company are exposed to the fluctuations of the market interest rate, as borrowings are at floating interest rates. Increase in interest rate risk is mostly affected by non-current borrowings. All borrowings of the Company bear floating interest rates which are linked with LIBOR-EUR. The borrowings interest rate reprising periods disclosed in Note 12.

In 2010, if interest rates on withdrawn borrowings had been 1 per cent higher/lower, post-tax profit for the year would have been by LTL 1,425 thousand (2009: LTL 132 thousand) lower/higher.

Foreign currency exchange risk

The Company conducts transactions that are denominated in foreign currencies. This leads to the occurrence of concentration of foreign exchange risk.

With effect from 1 February 2002, the exchange rate of the litas is pegged to the euro. As a result, changes in exchange rates of the euro do not have a significant impact on the Company's equity. As at 31 December 2010, the Company did not have any significant assets or liabilities denominated in currencies other than the litas and the euro.

The Company did not use any financial instruments to manage the currency risk.

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(All amounts in LTL thousand unless otherwise stated)

24 Financial risk management (continued)**Fair values**

The Company's principal financial instruments not carried at fair value are cash and cash equivalents, trade and other receivables, trade and other payables, non-current and current borrowings.

The Company's financial assets at fair value through profit and loss fair values are based on observable market prices.

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

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

- The carrying amount of cash and cash equivalents, current trade and other accounts receivable, current trade and other accounts payable and current borrowings approximates their fair value.
- The fair value of non-current borrowings 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 in those cases, where interest rate margin on these debts approximates to current market interest margins.

25 Capital management

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

The Company manages its capital structure and makes the adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to the shareholders or issue new shares. No changes were made concerning risk management objectives, policies or processes during the periods ended 31 December 2010 and 31 December 2009.

According to the Law on Companies of the Republic of Lithuania, equity of the Company must account for at least ½ of the amount of the authorised share capital. No other external capital requirements have been imposed on the Company. As at 31 December 2010 and 31 December 2009, the Company was not in breach of the above mentioned requirement.

26 Commitments and contingencies

As at 31 December 2010 and 31 December 2009, the Company was not a party to any legal proceedings which could have a material effect on the financial statements.

Under the agreements signed commitments to acquire and construct property, plant and equipment amounted to LTL 279,143 thousand as at 31 December 2010 (31 December 2009: LTL 887,679 thousand).

LIETUVOS ELEKTRINĖ AB

Company code: 110870933, Elektrinės g. 21, LT-26108 Elektrėnai

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2010

(All amounts in LTL thousand unless otherwise stated)

27 Non-cash transactions

The main non-monetary transactions in 2010 which were eliminated during the preparation of the statement of cash flows include income tax offsetting against other taxes at LTL 6,207 thousand and non-monetary asset-related grant at LTL 128,786 thousand.

The main non-monetary transactions in 2009 which were eliminated during the preparation of the statement of cash flows include non-monetary asset-related grant at 385,768 LTL thousand.

28 Post-balance-sheet events and contingenciesRegarding reorganisation

On 19 January 2011, a general meeting of shareholders was convened where it was decided to delegate the Board of Lietuvos Elektrinė AB with the task of drawing up terms and conditions of reorganisation of Lietuvos Elektrinė AB and Lietuvos Energija AB by way of merger in cooperation with the Board of Lietuvos Energija AB (paragraph 2 of Article 2.97 of the Civil Code of Lithuania). The merger is planned to be completed by 1 August 2011, when the Company will be merged with the parent company Lietuvos energija AB.

Regarding revision of the PSO scheme description

With effect from 1 January 2011, a new PSO scheme was approved according to which the Company will receive PSO service fees only for annual electricity actually produced.

Regarding overdraft agreement extension

On March 2011, the overdraft agreement with the Swedbank AB amounting to LTL 13,000 thousand has ended. The agreement was extended for period of one more year under the same conditions.
