To The Securities Commission of the Republic of Lithuiania
Konstitucijos ave. 23
LT-08105 Vilnius

08 04 2011

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 21 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Securities Commission of the Republic of Lithuania, we, Arvydas Tarasevičius, AB LESTO General Manager, and Ramutė Ribinskienė, AB LESTO Director of Finance and Administration Division, hereby do confirm that, to the best of our knowledge, the Consolidated Financial Statements of the year 2010 of Rytų skirstomieji tinklai AB have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss of Rytų skirstomieji tinklai AB and the Group as well as the Consolidated Annual Report includes a fair review of the development and performance of the business and the position of Rytų skirstomieji tinklai AB and the Group, including description of the main risks and contingencies faced.

AB LESTO
Chief Executive Officer

Arvydas Tarasevičius

AB LESTO
Director of Finance and Administration Division

Ramutė Ribinskienė

RYTŲ SKIRSTOMIEJI TINKLAI AB

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR 2010 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT AND ANNUAL REPORT

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Our report has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of our report takes precedence over the English language version.

Independent Auditor's Report

To the shareholders of AB Rytų Skirstomieji Tinklai

Report on the financial statements

We have audited the accompanying stand alone and consolidated financial statements (together 'the Financial statements') of AB Rytų Skirstomieji Tinklai ('the Company') and its subsidiaries (collectively 'the Group') set out on pages 5 – 45 which comprise the stand alone and consolidated statement of financial position as of 31 December 2010 and the stand alone and consolidated statements of comprehensive income, changes in equity and cash flows for the 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 – scope limitation

According to the Company's and the Group's accounting policy, property, plant and equipment should be carried at revalued amounts (being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses) and are subject to an impairment test when impairment indicators exist. As explained in Note 3 to the financial statements, the amendments to the legislation may have a significant adverse impact on the fair value and recoverable amount of the Company's and the Group's assets. The management has not reassessed fair values of property, plant and equipment with the carrying amounts of LTL 2,662 million and LTL 2,657 million, respectively, as of 31 December 2010 (LTL 2,738 million and LTL 2,757 million, respectively, as of 31 December 2009), or carried out a proper impairment test. It has not been possible to estimate reliably the effects of this non-compliance on the financial statements.

Qualified opinion

In our opinion, except for the possible effect of the matter described in the *Basis for Qualified Opinion - scope limitation* paragraph, the accompanying Financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2010, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2010 set out on pages 46 - 60 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

Rimvydas Jogėla
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
8 April 2011

Statement of financial position

	Notes	GROUP 31/12/2010	GROUP 31/12/2009 (restated)	COMPANY 31/12/2010	COMPANY 31/12/2009 (restated)
ASSETS					
Non-current assets					
Property, plant, and equipment	4	2,668,043	2,828,552	2,656,734	2,798,675
Intangible assets	5	4,817	3,849	4,805	3,843
Prepayments for property, plant, equipment and intangible assets		848	1,310	848	1,310
Investments in subsidiaries	31	-	-	11,657	36,643
Investments in associates	30	105,823	-	108,682	-
Deferred income tax assets	19	168	169	-	-
Non-current receivables	6	2,517	2,671	2,517	2,671
		2,782,216	**2,836,551**	**2,785,243**	**2,843,142**
Current assets					
Inventories	7	3,275	5,141	920	1,581
Trade and other receivables	8	102,045	98,130	100,502	97,507
Prepayments and deferred charges and accrued income	9	12,614	11,725	12,573	11,524
Prepaid income tax		7	239	-	-
Loans granted	28	-	70,000	-	70,000
Short term deposits	11	5,500	47,500	5,500	47,500
Cash and cash equivalents	11	69,647	24,074	67,955	21,306
		193,088	256,809	187,450	249,418
Non-current assets held for sale		760	679	-	2
		193,848	**257,488**	**187,450**	**249,420**
Total assets		**2,976,064**	**3,094,039**	**2,972,693**	**3,092,562**
EQUITY					
Equity and reserves attributable to owners of the Company					
Share capital	12	492,405	492,405	492,405	492,405
Revaluation reserve	13	1,119,393	1,243,355	1,115,661	1,237,738
Legal reserve	13	49,420	49,551	49,240	49,240
Other reserves	13	271	1,638	-	-
Retained earnings		527,189	501,780	534,277	508,593
		2,188,678	**2,288,729**	**2,191,583**	**2,287,976**
Non-controlling interest		**5,552**	**-**	**-**	**-**
Total equity		**2,194,230**	**2,288,729**	**2,191,583**	**2,287,976**
LIABILITIES					
Amounts payable after one year and non-current liabilities					
Borrowings	18	89,955	125,514	89,955	125,514
Deferred income tax liabilities	19	229,789	240,671	230,154	241,030
Deferred income	14	180,762	187,638	180,762	187,638
Grants and subsidies	15	11,057	9,004	11,057	9,004
Non-current employee benefits		3,447	4,859	3,447	4,859
Other non-current liabilities		593	-	593	-
		515,603	**567,686**	**515,968**	**568,045**
Amounts payable within one year and current liabilities					
Borrowings	18	53,147	54,918	53,147	54,918
Trade and other payables	16	179,932	146,210	179,218	145,180
Advances received and accrued charges	17	30,581	29,301	30,206	29,248
Derivative financial instruments	10	1,229	512	1,229	512
Current income tax liabilities		1,342	6,683	1,342	6,683
		266,231	**237,624**	**265,142**	**236,541**
Total liabilities		**781,834**	**805,310**	**781,110**	**804,586**
Total equity and liabilities		**2,976,064**	**3,094,039**	**2,972,693**	**3,092,562**

The notes on pages 10 to 45 are an integral part of these financial statements.

The financial statements presented on pages 5 to 45 were approved by the General Director and Director of the Finance and Administrative Department of LESTO AB on 8 April 2011.

Arvydas Tarasevičius

LESTO AB
General Manager

Ramutė Ribinskienė
LESTO AB
Director of Finance and Administrative Division

Statement of comprehensive income

		GROUP		COMPANY	
	Notes	2010	2009 (restated)	2010	2009 (restated)
Sales revenue	20	1,266,954,	1,177,518,	1,259,916	1,174,619
Purchases of electricity		(730,620)	(563,494)	(730,620)	(563,494)
Expenses related to electricity transmission service		(142,476)	(159,425)	(142,476)	(159,424)
Depreciation and amortisation	4, 5, 15	(218,357)	(250,418)	(215,222)	(245,496)
Employee benefits and related social security contributions	21	(108,378)	(109,174)	(88,568)	(90,672)
Repairs and maintenance expenses		(34,659)	(29,073)	(47,861)	(44,531)
Transportation costs		(3,607)	(1,932)	(8,918)	(9,544)
Effect of revaluation of property, plant and equipment	4	(9,142)	(72,880)	(10,171)	(69,795)
Other expenses	23	(25,950)	(30,230)	(23,013)	(29,416)
Operating profit (loss)		**(6,235)**	**(39,108),**	**(6,933)**	**(37,753)**
Finance income	22	5,147	7,000	5,858	7,947
Finance (costs)	22	(3,949)	(4,599)	(3,919)	(4,547)
Finance income/(costs), net		1,198	2,401	1,939	3,400
(Loss) on investments in associates	30	(921)	-	-	-
Profit/(loss) before income tax		**(5,958)**	**(36,707)**	**(4,994)**	**(34,353)**
Income tax	19	(520)	10,798,	(320)	10,601
Profit (loss) for the year		**(6,478)**	**(25,909)**	**(5,314)**	**(23,752)**
Other comprehensive income/(expense):					
Gain (loss) on revaluation of property, plant and equipment	4	7,652	(230,528)	7,033	(227,278)
Share of other comprehensive income/(expense) of associates	30	(1,291)	-	-	-
Deferred income tax effect	19	(93)	122,527	-	121,830
Other comprehensive income/(expense)		6,268	(108,001)	7,033	(105,448)
Total comprehensive income/(expense) for the year		**(210)**	**(133,910)**	**1,719**	**(129,200)**
Profit (loss) for the year attributable to:					
Owners of the Company		(6,807)	(25,909)	(5,314)	(23,752)
Non-controlling interest		329	-	-	-
		(6,478)	**(25,909)**	**(5,314)**	**(23,752)**
Total comprehensive income/(expense) for the year attributable to:					
Owners of the Company		(691)	(133,910)	1,719	(129,200)
Non-controlling interest		481	-	-	-
		(210)	**(133,910)**	**1,719**	**(129,200)**
Basic and diluted deficit per share (in LTL) attributable to owners of the Company	24	(0.014)	(0.053)	(0.011)	(0.048)

The notes on pages 10 to 45 are an integral part of these financial statements.

Statement of changes in equity

GROUP	Notes	Attributable to owners of the Company							
		Share capital	**Revaluation reserve**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009		**492,405**	**1,462,054**	**49,516**	**336,169**	**82,495**	**2,422,639**	**-**	**2,422,639**
Profit/(loss) for the year		-	-	-	-	(25,909)	(25,909)	-	(25,909)
Other comprehensive income/(expense)	13	-	(108,001)	-	-	-	(108,001)	-	(108,001)
Transfers to retained earnings (depreciation, net of deferred income tax)	13	-	(131,870)	-	-	131,870	-	-	-
Transfers to retained earnings (correction of previous period deferred income tax and depreciation)	13	-	21,172	-	-	(21,172)	-	-	-
Comprehensive income/(expense) (restated)		**-**	**(218,699)**	**-**	**-**	**84,789**	**(133,910)**	**-**	**(133,910)**
Transactions with owners									
Transferred to reserves	13	-	-	35	(331,881)	331,846	-	-	-
Reserves utilised		-	-	-	(2,650)	2,650	-	-	-
Total transactions with owners		**-**	**-**	**35**	**(334,531)**	**334,496**	**-**	**-**	**-**
Balance at 31 December 2009 (restated)		**492,405**	**1,243,355**	**49,551**	**1,638**	**501,780**	**2,288,729**	**-**	**2,288,729**
Balance at 1 January 2010 (restated)		**492,405**	**1,243,355**	**49,551**	**1,638**	**501,780**	**2,288,729**	**-**	**2,288,729**
Profit/(loss) for the year		-	-	-	-	(6,807)	(6,807)	329	(6,478)
Other comprehensive income/(expense)	13	-	7,407	-	-	(1,291)	6,116	152	6,268
Sale of subsidiaries	13		(2,070)	(131)		2,201	-	-	-
Transfers to retained earnings (depreciation, net of deferred income tax)	13	-	(129,281)	-	-	129,281	-	-	-
Comprehensive income/(expense)		**-**	**(123,944)**	**(131)**	**-**	**123,384**	**(691)**	**481**	**(210)**
Transactions with owners									
Reserves utilised		-	-	-	(1,367)	1,367	-	-	-
Dividends	25	-	-	-	-	(98,112)	(98,112)	-	(98,112)
Total distributions to owners		-	-	-	(1,367)	(96,745)	(98,112)	-	(98,112)
Changes in ownership interest in the subsidiary not resulting in the loss of control	31	-	-	-	-	(602)	(602)	3,967	3,365
Contribution of a non-controlling interest to the share capital of the subsidiary	31	-	-	-	-	-	-	1,366	1,366
Deferred tax on contribution of a non-controlling interest to the share capital of the subsidiary		-	-	-	-	21	21	8	29
Loss on business combination	32	-	(18)	-	-	(649)	(667)	(270)	(937)
Total transactions with owners		**-**	**(18)**	**-**	**(1 367)**	**(97 975)**	**(99 360)**	**5 071**	**(94 289)**
Balance at 31 December 2010		**492,405**	**1,119,393**	**49,420**	**271**	**527,189**	**2,188,678**	**5,552**	**2,194,230**

The notes on pages 10 to 45 are an integral part of these financial statements.

Statement of changes in equity (continued)

COMPANY	Notes	Share capital	Revalua-tion reserve	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2009		**492 405**	**1 452 735**	**49 240**	**333 519**	**89 277**	**2 417 176**
Profit/(loss) for the year		-	-	-	-	(23,752)	(23,752)
Other comprehensive income/(expense)	13	-	(105,448)	-	-	-	(105,448)
Transfers to retained earnings (depreciation, net of deferred income tax)	13	-	(130,721)	-	-	130,721	-
Transfers to retained earnings (correction of previous period deferred income tax and depreciation)	13	-	21,172	-	-	(21,172)	-
Comprehensive income/(expense) (restated)		**-**	**(214,997)**	**-**	**-**	**85,797**	**(129,200)**
Transaction with owners – transfers to reserves	13	-	-	-	(333,519)	333,519	-
Balance at 31 December 2009 (restated)		**492,405**	**1,237,738**	**49,240**	**-**	**508,593**	**2,287,976**
Balance at 1 January 2010 (restated)		**492,405**	**1,237,738**	**49,240**	**-**	**508,593**	**2,287,976**
Profit/(loss) for the year		-	-	-	-	(5,314)	(5,314)
Other comprehensive income/(expense)	13	-	7,033	-	-	-	7,033
Transfers to retained earnings (depreciation, net of deferred income tax)	13	-	(129,110)	-	-	129,110	-
Comprehensive income/(expense)		**-**	**(122,077)**	**-**	**-**	**123,796**	**1,719**
Transactions with owners – dividends	25	-	-	-	-	(98,112)	(98,112)
Balance at 31 December 2010		**492,405**	**1,115,661**	**49,240**	**-**	**534,277**	**2,191,583**

The notes on pages 10 to 45 are an integral part of these financial statements

Statement of cash flows

		GROUP		COMPANY	
	Notes	**2010**	**2009**	**2010**	**2009**
Cash flows from operating activities			**(restated)**		**(restated)**
Profit (loss) for the year		(6,478)	(25,909)	(5,314)	(23,752)
Adjustments for:					
Depreciation and amortisation	4,5	218,930	252,094	215,795	246,070
Reversal of impairment of property, plant and equipment	4	(221)	(271)	(221)	(271)
Revaluation of property, plant and equipment	4	9,142	72,880	10,171	69,795
Income tax	19	520	(10,798)	320,	(10,601)
Amortisation of grants	15	(573)	(574)	(573)	(574)
(Gain)/loss on disposal and write-off of property, plant and equipment		2,493	2,847	2,489	3,401
Gain on revaluation of investments in subsidiaries when control is lost and significant influence is acquired	30	(2,520)	-	(2,841)	-
Impairment of investments in subsidiaries	31	-	-	2,189	-
Loss on investments in associates	30	921	-	-	-
Impairment of investments in associates	30	326	-	-	-
Dividend income		-	-	(710)	(812)
Finance (income)	22	(5,147)	(7,000)	(5,148)	(7,135)
Finance costs	22	3,949	4,599	3,919	4,548
Changes in working capital:					
(Increase) decrease in trade receivables and other receivables		(1,288)	10,030	(4,252)	8,770
(increase) decrease in inventories, prepayments and other assets		1,824	432	619	(295)
Increase in amounts payable and advance amounts received		11,754	(19,379)	14,020	(20,677)
Cash generated from operations		**233,632**	**278,951**	**230,463**	**268,467**
Income tax (paid)		(16,538)	(30,296)	(16,538)	(30,149)
Net cash generated from operating activities		**217,094**	**248,655**	**213,925**	**238,318**
Cash flows from investing activities					
(Purchase) of property, plant and equipment and intangible assets		(143,064)	(136,556)	(141,664)	(135,243)
Proceeds from sale of property, plant and equipment		96	1,185	96	275
Loan repayments received from subsidiaries		-	-	-	2,000
Loans repayments received		360	471	360	471
Loans granted		-	(70,000)	-	(70,000)
Term deposits		42,000	(47,500)	42,000	(47,500)
Dividends received		-	-	710	812
Interest received		5,152	7,000	5,148	7,135
Acquisition of associates	30	(3,500)	-	(3,500)	-
Contribution to share capital of subsidiary	31	-	-	(2,189)	-
Proceeds from exchange of business	32	288	-	-	-
Loss of control in subsidiaries		(4,852)	-	-	-
Net cash used in investing activities		**(103,520)**	**(245,400)**	**(99,039)**	**(242,050)**
Cash flows from financing activities					
(Repayments) of borrowings		(24,510)	(11,415)	(24,510)	(11,415)
Dividends (paid) to the Company's shareholders		(27,658)	(38)	(27,658)	(38)
Interest paid		(3,264)	(5,614)	(3,250)	(5,576)
Contribution to share capital of subsidiary by non-controlling interest		250	-	-	-
Net cash used in financing activities		**(55,182)**	**(17,067)**	**(55,418)**	**(17,029)**
Net increase/(decrease) in cash and cash equivalents		**58,392**	**(13,812)**	**59,468**	**(20,761)**
Cash and cash equivalents at beginning of year	11	**(6,333)**	**7,479**	**(9,101)**	**11,660**
Cash and cash equivalents at end of year	11	**52,059**	**(6,333)**	**50,367**	**(9,101)**

The notes on pages 10 to 45 are an integral part of these financial statements.

Notes to the financial statements

1. General information

Information about the Company

Until 31 December 2010, Rytų Skirstomieji Tinklai AB (hereinafter "the Company") was a public company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities on 31 December 2001.

The shares of the Company were listed on the main list of NASDAQ OMX Vilnius stock exchange. Due to reorganisation, as described below, trade in the Company's shares on the stock exchange was suspended on 20 December 2010.

From 27 September 2010, based on the Board's decision of 6 September 2010 employees of the Company's head office and activities thereof were moved from premises located at Lukšio St. 5B, Vilnius, to premises located at Žvejų St.14, Vilnius. With effect from 27 September 2010, the address of the Company's registered office is:

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

The main activity of the Company was electricity supply and distribution. The Company, owning medium and low voltage electricity network, was a sole provider of electricity distribution service to the consumers in the eastern part of Lithuania.

On 18 November 2010, the National Control Commission for Prices and Energy changed licenses of the distribution network operator and public supply issued to the Company by adding the municipality of Visaginas to the territory serviced by the Company. With effect from 1 November 2010, the Company has been conveyed ownership rights of the electricity distribution network located in the territory of Visaginas municipality.

As at 31 December 2009, the shareholders of the Company were as follows:

	At 31 December 2009	
	Number of shares held	Ownership interest
LEO LT, AB	351,316,161	71.35 %
E.ON Ruhrgas International AG (Germany)	99,845,392	20.28 %
Other shareholders	41,243,100	8.37 %
Total	492,404,653	100 %

As at 31 December 2010, the shareholders of the Company were as follows:

	At 31 December 2010	
	Number of shares held	Ownership interest
Visagino Atominė Elektrinė UAB	351,316,161	71.35 %
E.ON Ruhrgas International AG (Germany)	99,845,392	20.28 %
Other shareholders	41,243,100	8.37 %
Total	492,404,653	100 %

All the shares of the Company are ordinary shares with the par value of LTL 1 each and were fully paid as at 31 December 2010 and 2009. The Company does not have any other classes of shares than ordinary shares mentioned above, there are no restrictions of share rights or special control rights for the shareholders set in the Articles of Association of the Company.

Visagino Atominė Elektrinė UAB was a parent company of the Company as at 31 December 2010 (31 December 2009: LEO LT, AB). Visagino Atominė Elektrinė UAB (31 December 2009: LEO LT, AB) was wholly-owned by the Lithuanian Government (ultimate controlling party).

On 4 January 2010, an extraordinary general meeting of the shareholders of the Company was convened where it was decided to reorganise the Company and VST AB by way of merger. On 4 May 2010, the Ministry of Energy made a public statement announcing that the Government of the Republic of Lithuania approved the reorganisation plan of Lithuanian energy companies the implementation of which will result in the formation of four blocks of electric power companies namely transmission, generation, distribution and maintenance. During this reorganisation process the Company and VST AB will be merged to form a new company over which control will be retained by the Lithuanian Government.

The draft term and conditions of reorganisation of these companies were discussed and approved during the sittings of the Boards of the companies held on 6 September 2010. On 7 September 2010. the terms and conditions of reorganisation were made public. On 11 October 2010, the document Regarding the Reorganisation of Rytų Skirstomieji Tinklai AB and VST AB by Way of Merger was made public. Terms and conditions of reorganisation were approved at the general shareholder meeting held on 19 November 2010.

On 13 December 2010, an extraordinary general meeting of shareholders was convened where it was decided to reorganise the Company and VST AB by way of merger by establishing LESTO AB.

Under the terms and conditions of reorganisation approved by the decision of the extraordinary general meeting of shareholders of the Company on 13 December 2010, a transfer-acceptance act was signed on 31 December 2010, on the basis of which LESTO AB took over all assets, rights and obligations of the Company. The moment of the take-over of assets, rights and obligations of the Company is 1 January 2011, 00:00 am.

On 31 December 2010, the Company was removed from the Register of Legal Entities. Licensed activities of electricity transmission and public supply conducted by the Company were taken over and are continued by LESTO AB (company code: 302577612, address of registered office: Žvejų g.14, Vilnius) with effect from 1 January 2011.

With effect from 17 January 2011, shares of LESTO have been listed on the main list of NASDAQ OMX Vilnius stock exchange.

The Company's activities are regulated by the Lithuanian Law on Energy, Lithuanian Law on Electricity and other regulatory legislation.
The National Control Commission for Prices and Energy (hereinafter "the Commission) regulates the Company's activities by setting price-caps of licensed activity services. On 26 November 2009, a sitting of the Commission was convened where prices of electric power and the distribution service for 2010 applicable to the Company were announced. With effect from 1 January 2010, the price of the electricity increased by an average of 9 ct/kWh (excl. VAT) for residential users and by an average of 7 ct/kWh (excl. VAT) for industrial and commercial users. Prices are announced by the Commission in the manner prescribed by the legislative acts. The increase in prices of electricity in 2010 was caused by the increase in the production price following the closedown of the Ignalina Nuclear Power Plant.

On 26 November 2010, the Commission approved the final prices of electricity for 2011 and tariff plans applicable to customers of the Company and VST AB. From 2011 prices of electricity for residential users remained unchanged.

The consolidated group

As at 31 December 2010, the consolidated group (hereinafter "the Group") consisted of the Company, one subsidiary and three associates. As at 31 December 2009, the Group consists of the Company and its three subsidiaries. The subsidiaries and associates included in the Group's consolidated financial statements are listed below:

			Ownership interest held by the Group (%)		
Subsidiary or associate	**Country**	**Year of acquisition**	**at 31 December 2010**	**at 31 December 2009**	**Profile of activities**
Elektros Tinklo Paslaugos UAB	Lithuania	2004	71 %	100 %	Power network engineering, construction, repair, maintenance and customer connection to the grid services
Tetas UAB	Lithuania	2005	39 %	100 %	Power network engineering, construction, repair, maintenance and customer connection to the grid services
Technologijų ir Inovacijų Centras UAB	Lithuania	2010	37 %	-	IT and communication services
NT Valdos UAB (named Kruonio Investicijos UAB until 28 October 2010)	Lithuania	2010	29 %	-	Real estate management services
Rytra UAB (wholly-owned by NT Valdos UAB)	Lithuania	2004	29 %	100 %	Transportation services
Energetikos Pajėgos UAB (wholly-owned by Tetas UAB)	Lithuania	2010	39 %	-	Preparation of electrification projects
Public Institution Centre of Training for Energy Specialists (wholly-owned by Technologijų ir Inovacijų Centras UAB)	Lithuania	2010	37 %	-	Training services

There were 1,426 employees in the Company as at 31 December 2010 (1,794 as at 31 December 2009); 1,866 employees in the Group as at 31 December 2010 (2,516 employees as at 31 December 2009).

Approval of financial statements

The Company's management approved these financial statements on 8 April 2011. The shareholders of the Company have a statutory right to approve these financial statements or not to approve them and to require preparation of a new set of financial statements.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Group's financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1. Basis of preparation

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

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

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

(a) Relevant new or amended standards and interpretations effective in 2010

- 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, with early adoption permitted). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

  The Company and the Group started to apply IFRIC 18 from 1 January 2010. Although the interpretation as adopted by the EU is effective for annual periods beginning after 31 October 2009, IFRIC 18 is applied to assets received from clients starting from 1 July 2009. As a result, the Company and the Group made retrospective adjustments to income received from new customer connection fees from 1 July 2009. The effect of change in accounting policies is disclosed in Note 33. Due to the change in accounting policy basic and diluted loss per share decreased by LTL 0.023. Change in accounting policies had no impact on the balance sheet as of 31 December 2008.

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

(b) New standards, amendments to standards and interpretations effective in 2010, but not relevant to the Company and the Group

The following new and amended standards and interpretations as adopted by EU are mandatory for accounting periods beginning on or after 1 January 2010, but are not relevant to the Company:

- IFRS 3, 'Business combinations' (revised; 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).

- 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 (issued in April 2009). In April 2009, the International Accounting Standards Board (IASB) issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Amendments as adopted by the EU are effective for financial years beginning on or after 1 January 2010.

- IFRIC 12, 'Service concession arrangements' (IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009).

- IFRIC 15, 'Agreements for the construction of real estate' (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 01 July 2009).

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

- 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 31 December 2009).

- 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).

(c) New or revised standards and interpretations that are mandatory for the Group's and the Company's accounting periods beginning on or after 1 January 2011 and which the Group and the Company have early adopted.

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

  The Group and the Company decided to apply this standard from the financial period which started from 1 January 2010. The standard was applied retrospectively. The amended standard does not require to disclose transactions and balances arising from these transactions, including off-balance sheet liabilities, conducted with the state or state related companies. The early adoption of the standard did not significantly affected the disclosure of transactions with related parties and balances arising from these transactions in the financial statements.

(d) New or revised standards and interpretations that are mandatory for the Group's and the Company's accounting periods beginning on or after 1 January 2011 and which the Group and the Company have not early adopted.

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

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

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

- Improvements to International Financial Reporting Standards (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The Group and the Company do not expect the improvements to have a significant impact on the financial statements.

- Disclosures—Transfers of financial assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The Group and the Company do not expect the amendments to have a significant impact on the financial statements.

- Deferred Tax: Recovery of underlying assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The Group and the Company do not expect the amendment to have a significant impact on the financial statements.

- Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). This amendment will not have any impact on the Group's and the Company's financial statements.

2.2. Consolidated financial statements

a) Subsidiaries

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

Subsidiaries are consolidated from the date from which effective control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Group.

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

b) Combination of businesses under common control

A combination of businesses under common control is accounted for by the predecessor method of accounting. A difference between the consideration paid or the carrying amount of net assets transferred and the consideration received or the carrying amount of net assets acquired is accounted for in other comprehensive income in the financial statements of the transferor.

c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associate's post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The carrying amounts of investments in associates are adjusted by these amounts. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3. 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 Board of Directors that makes strategic decisions.
The Group and the Company have a single reportable business segment, i.e. sales and distribution of electricity. 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.

2.4. Foreign currency translation

(a) Functional and presentation currency

The items shown in the financial statements of each company of the Group are valued by the currency of the original economic environment wherein a specific company operates (hereinafter the "functional currency"). The consolidated financial statements are presented in the national currency of the Republic of Lithuania, the litas (LTL), which is the Company's functional and presentation currency.
With effect from 2 February 2002, the litas has been pegged against the euro at exchange rate of LTL 3.4528 = EUR 1.

(b) Transactions and balances

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

2.5. Property, plant, and equipment

Property, plant and equipment are shown at revaluated amounts, based on periodic (at least every 5 years) valuations by external independent appraisers or by the Company's management, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is adjusted to the revaluated amount of the assets.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and subsequently to the revaluation reserve in equity. Decreases in the carrying amount arising on the subsequent revaluation of property, plant and equipment that offset previous increases of the same asset are recognised in other comprehensive income and charged against previously recognised revaluation reserve directly in equity; all other decreases are charged to the statement of comprehensive income. Revaluation increases in property plant and equipment value that offset previous decreases are recognised in comprehensive income. All other increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and subsequently to the revaluation reserve in equity. Each year the difference between depreciation based on the revaluated carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax.
Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their revaluated amounts to their residual values over their estimated useful life, as follows:

Buildings	8 - 50 years
Including:	
35 - 110 kV transformer substation buildings	35 years
10 kV distribution point buildings	35 years
10/0.4 kV transformer buildings	35 years
Connection and control system buildings	25 years
Structures and electricity network	5 - 50 years
Including:	
35 - 110 kV transformer substations (except buildings)	25 - 40 years
10 kV distribution points (except buildings)	30 years
10/0.4 kV power transformers	30 years
35 kV power lines	40 years
0.4 - 10 kV electricity network	30 - 40 years
10/0.4 kV transformers (except buildings)	30 years
Connection and control systems (except buildings)	10 - 40 years
Machinery and equipment	3 - 40 years
Other property, plant and equipment	3 - 50 years

The assets' residual values and useful lives are regularly reviewed, and adjusted if appropriate.
Property, plant and equipment include spare parts that can only be used in connection with specific item of property, plant and equipment.
When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are determined by comparing proceeds with carrying amount of the assets disposed and are included in the statement of comprehensive income. When revaluated assets are sold, the amounts included in revaluation reserve are transferred to retained earnings (deficit).

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

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

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time (over 1 year) to get ready for intended use (qualifying assets) are capitalised as part of the cost of those assets.

2.6. Intangible assets

(a) Computer software

Software licences acquired are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life (3 years).

(b) Other intangible assets

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

2.7. Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8. Financial asset

Financial assets are classified by the Group and the Company as either financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables and available-for-sale financial assets. All purchases and sales of investments are recognised on the trade date. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, in which case they are classified as non-current assets.

Loans and receivables are recognised initially at cost (fair value of consideration given) and subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised, impaired, as well as through the amortisation process.

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

2.9. Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group and the Company do not use hedge accounting, therefore derivative instruments are accounted for at fair value through profit or loss. Changes in the fair value of derivative instruments are recognised immediately in the statement of comprehensive income within expenses of financing activities.

2.10. Investments in subsidiaries and associates in the separate financial statements of the Company

Investments in subsidiaries and associates that are included in the separate financial statements of the Company are accounted for at cost less impairment loss.

2.11. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first in first out (FIFO) method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group and the Company from the taxation authorities), transportation, handling and other costs directly attributable to the cost of inventories. Cost excludes borrowing costs.

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

2.12. Non-current assets held for sale

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

2.13. Short term deposits

Short-term deposits include short-term liquid investments with original maturities of more than three months. Deposits are carried at amortised cost using the effective interest method

2.14. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits in banks and other short-term highly liquid investments with original maturities of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits in current bank account and other short-term highly liquid investments with original maturities of three months or less, and overdrafts. Overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.15. Trade payables

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

2.16. Borrowings

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

Borrowings are classified as current liabilities, unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 months after the date of the preparation of the statement of financial position.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time (over 1 year) to get ready for intended use (qualifying assets) are capitalised as part of the cost of those assets. Other borrowing costs are recognised as expenses as incurred.

2.17. Income tax

Income tax expense for the period includes income tax for a reporting period and deferred income tax.

a) Income tax

The current year income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Tax rates and tax laws used to compute income tax expense are those applicable as of the date of the statement of financial position.

In 2010, income tax at a rate of 15 per cent was applicable in Lithuania (2009: 20 %).

b) Deferred income tax

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

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

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

c) Income tax and deferred income tax for the reporting period

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

2.18. Employee benefits

a) Social security contributions

The Group and the Company pay social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group and the Company pay fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as an expenses on an accrual basis and are included within payroll expenses. The social insurance contributions rate applied to the Company amounts to 31.13 per cent.

b) Termination benefits

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

c) Pension benefits

According to Lithuanian legislation, each employee of the Group and the Company is entitled to 2 months salary payment when leaving the job at or after the start of pension period. Employee benefit liability is recognised in the balance sheet and reflects present value of these benefits at the balance sheet date. The defined benefit obligation as of balance sheet date is based on actuarial calculations applying the projected credit unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related liability.

2.19. Grants and subsidies

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

Government grants relating to expenses are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the expenses that they are intended to compensate.

2.20. Accounting for leases – the Group and the Company the lessees

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

2.21. Provisions

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

2.22. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's or the Company's activities. Revenue of the Company is recognised net of value added tax, returns and discounts and the Group's revenues – after eliminating sales within the Group.

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

(a) Sales of electricity

Revenue from electricity sales to residential customers is recognised when electricity is provided. An estimate of unbilled revenue is made to record amounts earned, but not yet received at the end of each accounting period. Unbilled revenue is estimated as 1/3 of payments received for electricity in January of the next reporting year. This estimate is based on the Company's historical experience and average payment period by the customers.

Revenue from electricity sales to business customers are recognised when the sale of electricity is made based on the actual usage of electricity which is determined based on electric meter measurements.

(b) Customers' connection fees

After 1 July 2009, fees received from the new customers and producers for connection and reconstruction or transfer of the network items or equipment, according to the request of the customers, producers and others, are recognised as income upon the connection of the user.

Until 1 July 2009, the above-mentioned fees received were initially recognised as deferred income and subsequently recognised as income over the useful life of the newly developed tangible fixed assets concerned. The related costs of installation, which include acquisition cost of tangible foxed assets and other costs, are capitalised and depreciated over the estimated useful lives of the capitalised assets.

(c) Sales of services

Sales of services are recognised in the reporting period in which the services were rendered, by reference to the level of completion of a specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Sales of goods

Sales of goods are recognised when the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier or to a specified destination, is transferred from the Group or the Company to the buyer in accordance with the standardised terms and conditions of sale (INCOTERMS) agreed with the buyer, and collectability of the related receivables is reasonably assured.

(e) Interest income

Interest income is recognised as interest accrues (using the effective interest method). Interest income is included in the finance income in the statement of comprehensive income.

(f) Dividend income

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

2.23. Dividend distribution

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

2.24. 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. Since there are no instruments reducing earnings per share, there is no difference between the basic and diluted earnings per share.

2.25. Contingencies

Contingent liabilities are not recognised in the financial statements. 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.

2.26. Events after the end of the reporting period

All events after the end of the reporting period (adjusting events) are recognised in the financial statements provided that they are related to the reporting period and have a significant impact on the financial statements. Events after the end of the reporting period that are material but are not adjusting events are disclosed in the notes to the financial statements.

2.27. Offsetting

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

3. Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. Areas where assumptions and estimates are significant to the financial statements are disclosed below:

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

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

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

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

According to the amendment effective from 1 June 2009 the Law on Electricity (No. XI-198) now requires the price caps of transmission, distribution and public supply services to be determined based on the value of assets used in licensed activities of the service provider with values being estimated and approved by the National Control Commission for Prices and Energy in accordance with the principles of determination of the value of assets used in licensed activities of the service provider that have been drafted by the Commission and approved by the Government.

According to the Resolution of the Government of the Republic of Lithuania (2009-09-09 No. 1142) on the Methodology of Determination of the Value of Assets used in Licensed Activities of the Electricity Service Provider, the determination of the price caps of electricity transmission, distribution and public supply services is to include the value of assets used in licensed activities of the service provider which is equal to net book value (carrying amount) of property, plant and equipment as at 31 December 2002 as increased by the amount of investments implemented and agreed with the Commission and reduced by the depreciation amount calculated pursuant to the procedure stipulated by the Lithuanian Law on Income Tax.

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

Determination of fair values of property, plant and equipment as at 31 December 2009 was not performed by external independent appraisers, as the above-mentioned amendments to regulatory legislation came in force only on 1 January 2010 and their impact on the future revenue generated by the Group and the Company could not be accurately estimated. In 2010 a significant reorganisation in the whole energy sector took place and the Company was merged with VST AB as from the beginning of 2011. Therefore based on the decision of management, valuation of property, plant and equipment was not performed by external independent appraisers as at 31 December 2010 either. For more information see Note 4.

(b) Deferral of customer connection fees

Until 1 July 2009, The Group and the Company deferred the revenue received for the new customer connections to the electricity network and recognised them as income over the period of approx. 31 years, which is the average useful life of electricity equipment constructed by the Group and the Company for the purposes of connecting new customers. The Company is the only provider of electricity distribution service to users in Eastern Lithuania, therefore management believes that the period of customer relations is close to infinite. As a result, the average useful life of electricity equipment constructed by the Group or the Company upon customer connection is used as the best estimate of the period over which connection fees paid customers are recognised as income. For further details, see Note 14. From 1 July 2009, connection fees received from customers are recognised as income upon the connection of the customer (see Note 2.1).

(c) Accrued income

The revenue from the residential customers is recognised based on payments received, therefore at the end of each reporting period the amount of the revenue earned but not yet paid by the residential customers is estimated and accrued by the management. The management has estimated that most of the residential customers declare and pay for the electricity usage on approx. 20th day of the month, while the electricity is used for a full month (30 or 31 days), therefore the usage for the remaining 10 days is proportionally estimated based on total December month usage declared by the residential customers and multiplied by the average rate per 1 kWh of electricity (Note 9).

(d) Provision for impairment of accounts receivable

Impairment loss of accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the management could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable. For further details, see Note 8.

(e) Useful lives of property, plant and equipment

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

(f) Tax audits

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

4. Property, plant, and equipment

Group	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construct-ion in progress	Total
At 31 December 2008							
Cost or revaluated amount	40	181,145	2,883,047	21,595	85,756	69,633	3,241,216
Accumulated depreciation	-	-	-	(4,220)	-	-	(4,220)
Net book amount	**40**	**181,145**	**2,883,047**	**17,375**	**85,756**	**69,633**	**3,236,996**
Net book amount at 31 December 2008	**40**	**181,145**	**2,883,047**	**17,375**	**85,756**	**69,633**	**3,236,996**
Additions	-	113	2,424	973	3,185	137,378	144,073
Revaluation	-	(38,219)	(258,251)	-	(5,654)	(1,284)	(303,408)
Disposals	-	(442)	(3)	(24)	(56)	-	(525)
Write-offs	-	(30)	(3,795)	(27)	(24)	-	(3,876)
Transferred to assets held for sale	-	(851)	-	-	-	-	(851)
Reclassification between groups	-	8,717	144,193	120	16,811	(169,841)	-
Depreciation charge	-	(13,719)	(203,652)	(3,752)	(22,734)	-	(243,857)
Net book amount at 31 December 2009	**40**	**136,714**	**2,563,963**	**14,665**	**77,284**	**35,886**	**2,828,552**
At 31 December 2009							
Cost or revaluated amount	40	136,714	2,563,963	34,606	77,284	35,886	2,848,493
Accumulated depreciation	-	-	-	(19,941)	-	-	(19,941)
Net book amount	**40**	**136,714**	**2,563,963**	**14,665**	**77,284**	**35,886**	**2,828,552**
Net book amount at 31 December 2009	**40**	**136,714**	**2,563,963**	**14,665**	**77,284**	**35,886**	**2,828,552**
Additions	6	2,126	34,160	2,593	738	119,739	159,362
Disposal of subsidiaries	-	(6,418)	(2,454)	(11,961)	(176)	-	(21,009)
Revaluation	-	(1,271)	1,114	(3)	1,907	(3,237)	(1,490)
Disposals	-	(517)	(409)	(344)	(30)	-	(1,300)
In-kind contributions to associates (Note 30)	-	(52,942)	(9,519)	(4)	(12,686)	(1,210)	(76,361)
Write-offs	-	(20)	(2,446)		(69)	(20)	(2,555)
Transferred from assets held for sale	-	2	-	-	-	-	2
Reclassification between groups	-	2,366	101,893		8,417	(112,676)	-
Reversal of impairment	-	-	-	3	132	86	221
Depreciation charge	-	(10,909)	(185,908)	(1,748)	(18,814)	-	(217,379)
Net book amount at 31 December 2010	**46**	**69,131**	**2,500,394**	**3,201**	**56,703**	**38,568**	**2,668,043**
At 31 December 2010							
Cost or revaluated amount	46	76,546	2,691,704	4,598	73,788	38,568	2,885,250
Accumulated depreciation	-	(7,415)	(191,310)	(1,397)	(17,085)	-	(217,207)
Net book amount	**46**	**69,131**	**2,500,394**	**3,201**	**56,703**	**38,568**	**2,668,043**

Company	Land	Build-ings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construct-ion in progress	Total
At 31 December 2008							
Cost or revaluated amount	40	162,027	2,879,416	140	84,477	69,587	3,195,687
Accumulated depreciation	-	-	-	(54)	-	-	(54)
Net book amount	**40**	**162,027**	**2,879,416**	**86**	**84,477**	**69,587**	**3,195,633**
Net book amount at 31 December 2008	**40**	**162,027**	**2,879,416**	**86**	**84,477**	**69,587**	**3,195,633**
Additions	-	113	2,079	-	3,110	137,378	142,680
Revaluation	-	(31,978)	(258,251)	-	(5,561)	(1,284)	(297,074)
Disposals	-	(148)	-	-	(49)	-	(197)
Write-offs	-	(30)	(3,794)	-	(24)	-	(3,848)
Reversal of impairment	-	8	183	1	39	40	271
Reclassification between groups	-	7,519	145,736	-	16,773	(169,881)	147
Depreciation charge	-	(12,996)	(203,777)	(42)	(22,122)	-	(238,937)
Net book amount at 31 December 2009	**40**	**124,515**	**2,561,592**	**45**	**76,643**	**35,840**	**2,798,675**
At 31 December 2009							
Cost or revaluated amount	40	124,515	2,561,592	140	76,643	35,840	2,798,770
Accumulated depreciation	-	-	-	(95)	-	-	(95)
Net book amount	**40**	**124,515**	**2,561,592**	**45**	**76,643**	**35,840**	**2,798,675**
Net book amount at 31 December 2009	**40**	**124,515**	**2,561,592**	**45**	**76,643**	**35,840**	**2,798,675**
Additions	6	2,108	31,847	-	458,	119,739	154,158
Revaluation	-	(2,920)	1,114	(2)	1,907	(3,237)	(3,138)
Disposals	-	(30)	-	-	-	-	(30)
In-kind contributions to associates (Note 30)	-	(52,942)	(9,519)	(4)	(12,686)	(1,210)	(76,361)
Write-offs	-	(20)	(2,443)	-	(68)	(20)	(2,551)
Transferred from assets held for sale	-	2	-	-	-	-	2
Reversal of impairment	-			3	132	86	221
Reclassification between groups	-	2,173	101,892		8,611	(112,676)	-
Depreciation charge	-	(10,291)	(185,266)	(41)	(18,644)	-	(214,242)
Net book amount at 31 December 2010	**46**	**62,595**	**2,499,217**	**1**	**56,353**	**38,522**	**2,656,734**
At 31 December 2010							
Cost or revaluated amount	46	70,009	2,681,982	133	72,704	38,522	2,863,396
Accumulated depreciation	-	(7,415)	(182,764)	(132)	(16,351)	-	(206,662)
Net book amount	**46**	**62,594**	**2,499,218**	**1**	**56,353**	**38,522**	**2,656,734**

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

Revaluation of property plant and equipment at 31 December 2010

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

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

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

The summary of revaluation deficit movement 2010 is presented below:

Group	**Decrease in other comprehensive income and revaluation reserve**	**Recognised in the statement of comprehensive income**	**Total revaluation deficit**
Increase (decrease) in carrying amount	7,652	(9,142)	(1,490)
Company			
Increase (decrease) in carrying amount	7,033	(10,171)	(3,138)

Revaluation of property plant and equipment at 31 December 2009

Revaluation of the Group's and the Company's property, plant and equipment was performed on 31 December 2009. On 31 December 2009, property, pant and equipment (except for buildings, motor vehicles and quickly depreciable assets such as computers) was revaluated using the indexes of construction prices as announced by the Statistics Department under the Government of the Republic of Lithuania for 11 months to 30 November 2009. Impairment rate of 9.68 per cent was applied for engineering structures.

Decreases in the carrying amounts of property plant and equipment arising on revaluation are as follows:

Group	**Buildings**	**Structures and machinery**	**Other property, plant and equipment**	**Construct-ion in progress**	**Total**
Decrease in carrying amount	(6,703)	(258,251)	(5,654)	(1,284)	**(271,892)**
Company					
Decrease in carrying amount	(6,703)	(258,251)	(5,561)	(1,284)	**(271,799)**

Decrease in the carrying amount arising on the revaluation amounting to LTL 271,892 thousand and LTL 271,799 thousand, respectively, was recognised as a reduction of LTL 216,065 thousand and LTL 216,065 thousand, respectively, charged to the revaluation reserve and as an impairment expenses of LTL 55,827 thousand and LTL 55,734 thousand, respectively, charged to the statement of comprehensive income.

In addition, the Company's and the Group's property, plant and equipment mainly real estate that historically was revaluated using the comparable market prices method (such as administrative buildings, warehouses) on 31 December 2009 was revaluated based on the report on fair value changes of industrial real estate in Lithuania by region in 2009 provided by independent valuer Ober-Haus Nekilnojamas turtas UAB. This report was derived from market evidence of real estate prices. Decreases in carrying amounts of property, plant and equipment arising on revaluation are as follows:

Group	**Buildings**	**Total**
Decrease in carrying amount	(31,516)	**(31,516)**
Company		
Decrease in carrying amount	(25,275)	**(25,275)**

Decrease in the carrying amount arising on the revaluation amounting to LTL 31,516 thousand and LTL 25,275 thousand, respectively, was recognised as a reduction of LTL 14,463 thousand and LTL 11,213 thousand, respectively, charged to the revaluation reserve and as an impairment expenses of LTL 17,053 thousand and LTL 14,061 thousand, respectively, charged to the statement of comprehensive income.

The summary of revaluation deficit movement 2009 is presented below:

Group	Decrease in other comprehensive income and revaluation reserve	Recognised in the statement of comprehensive income	Total revaluation deficit
Assets previously carried at depreciated replacement cost	(216,065)	(55,827)	(271,892)
Assets previously carried at market value	(14,463)	(17,053)	(31,516)
	(230,528)	(72,880)	(303,408)
Company			
Assets previously carried at depreciated replacement cost	(216,065)	(55,734)	(271,799)
Assets previously carried at market value	(11,214)	(14,061)	(25,275)
	(227,279)	(69,795)	(297,074)

If property, plant and equipment would not be revaluated, carrying amounts of property, plant and equipment as at 31 December 2010 and 2009 would be as follow:

Group	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construc tion in progress	Total
At 31 December 2010	46	55,594	1,237,441	3,200	53,037	38,568	**1,387,886**
At 31 December 2009	40	153,112	1,176,458	14,661	70,434	37,145	**1,451,850**

Company	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construc tion in progress	Total
At 31 December 2010	46	50,076	1,233,828	1	52,688	38,522	**1,375,161**
At 31 December 2009	40	139,025	1,171,547	41	69,792	37,100	**1,417,545**

5. Intangible assets

Group	Computer software	Other intangible assets	Total
At 31 December 2008			
Cost	21,875	370	22,245
Accumulated amortisation	(12,671)	(320)	(12,991)
Net book amount	**9,204**	**50**	**9,254**
Net book amount at 31 December 2008	**9,204**	**50**	**9,254**
Additions	1,731		1,731
Amortisation charge	(7,117)	(19)	(7,136)
Net book amount at 31 December 2009	**3,818**	**31**	**3,849**
At 31 December 2009			
Cost	23,606	370	23,976
Accumulated amortisation	(19,788)	(339)	(20,127)
Net book amount	**3,818**	**31**	**3,849**
Net book amount at 31 December 2009	**3,818**	**31**	**3,849**
Additions	3,224	-	3,224
Disposals	(6)	-	(6)
In-kind contributions to associates (Note 30)	(952)	-	(952)
Write-offs	(4)	-	(4)
Amortisation charge	(1,532)	(19)	(1,551)
Other	257	-	257
Net book amount at 31 December 2010	**4,805**	**12**	**4,817**
At 31 December 2010			
Cost	20,182	106	20,288
Accumulated amortisation	(15,377)	(94)	(15,471)
Net book amount	**4,805**	**12**	**4,817**

Company	**Computer software**	**Other intangible assets**	**Total**
At 31 December 2008			
Cost	21,861	370	22,231
Accumulated amortisation	(12,667)	(320)	(12,987)
Net book amount	**9,194**	**50**	**9,244**
Net book amount at 31 December 2008	**9,194**	**50**	**9,244**
Additions	1,730		1,730
Amortisation charge	(7,112)	(19)	(7,131)
Net book amount at 31 December 2009	**3,812**	**31**	**3,843**
At 31 December 2009			
Cost	23,591	370	23,961
Accumulated amortisation	(19,779)	(339)	(20,118)
Net book amount	**3,812**	**31**	**3,843**
Net book amount at 31 December 2009	**3,812**	**31**	**3,843**
Additions	3,213	-	3,213
In-kind contributions to associates (Note 30)	(952)	-	(952)
Write-offs	(4)	-	(4)
Amortisation charge	(1,534)	(19)	(1,553)
Other	258		258
Net book amount at 31 December 2010	**4,793**	**12**	**4,805**
At 31 December 2010			
Cost	20,171	106	20,277
Accumulated amortisation	(15,378)	(94)	(15,472)
Net book amount	**4,793**	**12**	**4,805**

6. Non-current receivables

Non-current receivables consist of mortgage loans which are issued to individuals for a period of 25 years. The mortgage loans are repayable in instalments by 2027. These loans are secured over residential property. In 2010, the current portion of these loans amounted to LTL 350 thousand (2009: LTL 341 thousand) and was accounted for under trade and other receivables (Note 8). These loans were issued at a fixed interest rate ranging from 0.1 to 1 per cent. Fair values of mortgage loans are presented below.

	Group		**Company**	
	2010	**2009**	**2010**	**2009**
Fair value of mortgage loans granted	3,931	2,861	3,931	2,861
Carrying amount of mortgage loans granted	2,867	3,012	2,867	3,012

Fair value of mortgage loans was estimated based on cash flows discounted at a rate of 4.8 per cent (31 December 2009: 5.4 per cent). The weighted average effective interest rate used by the Group and the Company for discounting of mortgage loans was 7.55 per cent as at 31 December 2010.

7. Inventories

	Group		**Company**	
	2010	**2009**	**2010**	**2009**
Raw materials and spare parts	3,530	5,567	1,252	1,911
Electric meters	523	935	523	932
Fuel	20	117	9	8
Other	223	176	80	101
Less: Impairment of inventories	(1,021)	(1,654)	(944)	(1,371)
	3,275	**5,141**	**920**	**1,581**

The amount of consumed inventories recognised as expenses in the Group and the Company is LTL 25,575 thousand and LTL 7,275 thousand, respectively, for the year 2010 (LTL 22,184 thousand and LTL 8,724 thousand, respectively, for the year 2009) and is accounted under repairs and maintenance expenses in the statement of comprehensive income.

Movements in the impairment allowance for inventories in 2010 and 2009 are as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
Provision for impairment of inventories at 1 January	**1,435**	**2,197**	**1,371**	**1,660**
Increase in provision for impairment of inventories during the period	93	549	93	247
Write-off of provision for impairment of inventories	(507)	(1,092)	(520)	(536)
Provision for impairment of inventories at 31 December	**1,021**	**1,654**	**944**	**1,371**

Impairment provision established for certain inventories was written off because inventories were either written off or utilised.

8. Trade and other receivables

	Group		Company	
	2010	**2009**	**2010**	**2009**
Trade receivables	114,462	111,455	113,373	110,132
Trade and other receivables from other parties (Note 28)	8,567	7,653	7,223	7,747
Current portion of mortgage loans	350	341	350	341
Other receivables	1,477	482	2,315	1,027
Less: impairment of doubtful receivables	(22,811)	(21,801)	(22,759)	(21,740)
	102,045	**98,130**	**100,502**	**97,507**

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

Impairment provision for trade receivables is recognised when it is probable that the debtor will enter bankruptcy, fails to fulfil obligations or make payments when they fall due (overdue for more than 2 months).

The Group's and the Company's trade receivables not classified as doubtful included as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
Not past due	83,926	81,551	83,926	80,301
Past due up to 1 month	816	352	816	352
Past due from 1 to 2 months	4,303	5,007	4,303	5,007
Carrying amount	**89,045**	**86,910**	**89,045**	**85,660**

For the aging analysis of trade receivables from related parties refer to Note 28.

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

The Group's and the Company's trade receivables that were provided for are presented below:

	Group		Company	
	2010	**2009**	**2010**	**2009**
Past due up to 3 months	1,853	1,605	1,841	1,596
Past due from 3 to 6 months	910	587	892	582
Past due from 6 to 12 months	1,795	3,524	1,794	3,515
Past due for more than 1 year	20,859	18,829	19,801	18,779
Carrying amount	**25,417**	**24,545**	**24,328**	**24,472**

Movements in the provision for impairment of the Group's trade receivables and other receivables in 2010 and 2009 were as follows:

Balance at 31 December 2008	**19,152**
Impairment charge for the year	3,101
Written-off	(452)
Balance at 31 December 2009	**21,801**
Impairment charge for the year	2,100
Reversal of impairment charge	(255)
Written-off	(835)
Balance at 31 December 2010	**22,811**

Movements in the provision for impairment of the Company's trade receivables and other receivables in 2010 and 2009 were as follows:

Balance at 31 December 2008	**19,115**
Impairment charge for the year	3,307
Written-off	(682)
Balance at 31 December 2009	**21,740**
Impairment charge for the year	2,104
Reversal of impairment charge	(255)
Written-off	(830)
Balance at 31 December 2010	**22,759**

9. Prepayments, deferred charges and accrued income

	Group		Company	
	2010	**2009**	**2010**	**2009**
Unbilled revenue from electricity supplied	12,529	9,912	12,529	9,912
Prepaid and recoverable taxes, other than income tax	2	32	2	11
Deferred charges	83	1,781	42	1,601
	12,614	**11,725**	**12,573**	**11,524**

10. Derivative financial instruments

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

As at 31 December 2010, nominal value of interest rate swaps amounted to LTL 69,056 thousand (31 December 2009: LTL 79,932 thousand).

As at 31 December 2010, fair value of interest rate swaps comprised the liability of LTL 1,229 thousand (31 December 2009: liability of LTL 512 thousand).

11. Cash and cash equivalents

	Group		Company	
	2010	**2009**	**2010**	**2009**
Term deposits with maturity of up to 3 months	66,078	20,731	66,078	20,726
Cash at bank	3,559	3,229	1,877	472
Cash in transit	10	114	-	108
	69,647	**24,074**	**67,955**	**21,306**

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

	Group		Company	
	2010	**2009**	**2010**	**2009**
Cash and cash equivalents	69,647	24,074	67,955	21,306
Overdraft	(17,588)	(30,407)	(17,588)	(30,407)
	52,059	**(6,333)**	**50,367**	**(9,101)**

As at 31 December 2010, the average weighted interest rate for the deposits with the maturity of up to three months was 1.32 per cent (2009: 5.60 per cent).

As at 31 December 2010, the Group and the Company had a short-term deposit at bank for the amount of LTL 5,500 thousand (31 December 2009: LTL 47,500 thousand) with maturity longer than 3 months.

12. Share capital

As at 31 December 2010, the Company's share capital is divided into 492,404,653 (2009: 492,404,653) ordinary registered shares with par value of LTL 1 each. All the shares are fully paid. The number of shares did not change during 2010 and 2009.

13. Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. As at 31 December 2010 and 2009, the legal reserve was fully established.

Revaluation reserve

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

Group	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 31 December 2008	**1,847,664**	**(385,610)**	**1,462,054**
Gains (losses) on revaluation of property, plant and equipment during the year	(230,528)	46,106	(184,422)
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(164,838)	32,968	(131,870)
Adjustments to deferred income tax relating to revaluation reserve	-	12,271	12,271
Adjustments to depreciation for revaluation reserve	10,472	(1,571)	8,901
Change in estimation of deferred income tax due to the change in tax rate	-	76,421	76,421
Balance at 31 December 2009	**1,462,770**	**(219,415)**	**1,243,355**
Gains (losses) on revaluation of property, plant and equipment during the year	7,652	(93)	7,559
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(150,788)	21,507	(129,281)
Change in revaluation reserve due to business combination (Note 32)	(32)	7	(25)
Disposal of subsidiaries	(2,070)	-	(2,070)
Share of subsidiaries' reserve attributable to non-controlling interest	(171)	26	(145)
Balance at 31 December 2010	**1,317,361**	**(197,968)**	**1,119,393**

Company	Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 31 December 2008	**1,836,363**	**(383,628)**	**1,452,735**
Gains (losses) on revaluation of property, plant and equipment during the year	(227,278)	45,456	(181,822)
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(163,403)	32,681	(130,722)
Adjustments to deferred income tax relating to revaluation reserve	-	12,271	12,271
Adjustments to depreciation of revaluation reserve	10,472	(1,571)	8,901
Change in estimation of deferred income tax due to the change in tax rate	-	76,375	76,375
Balance at 31 December 2009	**1,456,154**	**(218,416)**	**1,237,738**
Gains (losses) on revaluation of property, plant and equipment during the year	7,033	-	7,033
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)	(150,609)	21,499	(129,110)
Balance at 31 December 2010	**1,312,578**	**(196,917)**	**1,115,661**

The Company has adjusted the deferred income tax accounted for in revaluation reserve in 2009 for the amount of LTL 12,271 thousand. Depreciation impact on revaluation reserve assessed by the Group and the Company amounted to LTL 8,901 thousand in 2009.

Other reserves

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

At the ordinary general shareholders' meeting held on 30 April 2009 shareholders of the Company resolved to transfer the amount of LTL 333,519 thousand accounted for in other reserves to retained earnings.

14. Deferred income

	Group / Company	
	2010	**2009**
		(restated)
Deferred income from customer connection fees	171,769	178,229
Deferred income from public service obligations (PSO) electricity sales	1,238	1,280
Deferred income from replacement of electricity equipment	7,755	8,129
	180,762	**187,638**

Deferred income from customer connection fees

	2010	**2009**
		(restated)
Opening balance (restated)	**184,690**	**170,582**
New customer connections during the year	-	34,799
Recognised as income in the statement of comprehensive income	(6,461)	(20,691)
Closing balance	**178,229**	**184,690**
Non-current portion	171,769	178,229
Current portion (Note 17)	6,460	6,461
Total	**178,229**	**184,690**

With effect from 1 January 2010, all income from new customer connection to electricity equipment and from replacement of electricity lines are recognised in the period in which works are performed. Accrued income until 1 July 2009 is recognised as income over an average useful life of non-current assets concerned (see note 2.1).

15. Grants and subsidies

Movements in grants and subsidies of the Group and the Company in 2010 and 2009 were as follows:

Balance at 31 December 2008	**9,578**
Amortisation	(574)
Balance at 31 December 2009	**9,004**
Received	2,626
Amortisation	(573)
Balance at 31 December 2010	**11,057**

Grants consist of financing received from the EU Funds for the purpose of acquisition and construction of structures and electricity networks and tangible fixed assets received at no consideration from the Government of the Republic of Lithuania.

Amortisation of grants is accounted for under depreciation and amortisation in the statement of comprehensive income and reduces depreciation expenses of related tangible fixed assets.

16. Trade and other payables

	Group		**Company**	
	2010	**2009**	**2010**	**2009**
Trade payables	79,880	62,261	75,761	52,014
Amounts payable to subsidiaries (Note 28)	-	-	7,045	12,644
Amounts payable to related parties (Note 28)	90,837	72,693	89,434	72,692
Total trade payables	**170,717**	**134,954**	**172,240**	**137,350**
Taxes (other than income tax)	1,301	3,733	404	2,479
Employment-related liabilities	7,089	7,115	5,745	4,960
Other current liabilities	825	408	829	391
Total other amounts payable	**9,215**	**11,256**	**6,978**	**7,830**
	179,932	**146,210**	**179,218**	**145,180**

<u>Trade payables</u>

Terms and conditions of the above financial liabilities:

– Trade payables are non-interest bearing and are normally settled within the term of 60 days.
– Other payables are non-interest bearing and have an average settlement term of 6 months.
– Interest payable is normally paid in quarters over the course of the financial year.
– Terms and conditions applicable to amounts payable to related parties are described in Note 28.

17. Advances received, accrued charges and deferred income

	Group		**Company**	
	2010	**2009**	**2010**	**2009**
		(restated)		**(restated)**
Advances received	17,058	17,525	17,057	17,522
Current portion of deferred income from new customer connection (Note 14)	6,460	6,461	6,460	6,461
Accrued charges	7,063	5,315	6,689	5,,265
	30,581	**29,301**	**30,206**	**29,248**

Advances received mostly comprise advances received for new customer connection.

18. Borrowings

	Group		Company	
	2010	**2009**	**2010**	**2009**
Non-current borrowings				
Bank loans	89,955	125,514	89,955	125,514
Current borrowings				
Overdraft	17,588	30,408	17,588	30,408
Bank loans	35,559	24,510	35,559	24,510
	53,147	**54,918**	**53,147**	**54,918**
Total borrowings	**143,102**	**180,432**	**143,102**	**180,432**

All the Group's and the Company's borrowings bear floating interest rate with repricing period up to 6 months. No assets are provided as collateral for borrowings.

The maturity of non-current borrowings was as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
Within 1 to 2 years	39,980	35,559	39,980	35,559
Within 2 to 5 years	33,619	68,148	33,619	68,148
After 5 years	16,356	21,807	16,356	21,807
	89,955	**125,514**	**89,955**	**125,514**

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

	Group		Company	
	2010	**2009**	**2010**	**2009**
Overdraft	1.08 %	1.65 %	1.08 %	1.65 %
Bank loans	1.39 %	1.23 %	1.39 %	1.23 %

The carrying amount of non-current and current borrowings bearing floating interest rate approximates their fair value.

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

	Group		Company	
	2010	**2009**	**2010**	**2009**
LTL	17,588	30,408	17,588	30,408
EUR	125,514	150,024	125,514	150,024
	143,102	**180,432**	**143,102**	**180,432**

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

	Group		Company	
	2010	**2009**	**2010**	**2009**
Borrowings bearing a variable interest rate and maturing within one year	44,412	14,592	40,412	14,592

19. Deferred income tax

The Group's and the Company's income tax expense/(income) for 2010 and 2009 comprised as follows:

	Group		Company	
	2010	**2009 (restated)**	**2010**	**2009 (restated)**
Current year income tax expense	13,524	33,306	13,342	33,250
Adjustment of previous year income tax	(2,156)	-	(2,146)	-
Deferred income tax (income)	(10,848)	(44,104)	(10,876)	(43,851)
	520	**(10,798)**	**320**	**(10,601)**

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

Group

Deferred income tax assets	**New customer connection income**	**Impairment of assets**	**Accrued charges**	**Tax loss carry-forwards**	**Taxable goodwill arising on business combination**	**Overdeclaration of electricity**	**Total**
At 1 January 2009	**5,153**	**3,742**	**2,298**	**548**	**-**	**968**	**12,709**
Recognised in the statement of comprehensive income	(1,434)	(510)	(287)	79	-	(36)	(2,188)
At 31 December 2009	**3,719**	**3,232**	**2,011**	**627**	**-**	**932**	**10,521**
Recognised in the statement of comprehensive income	(146)	(350)	(59)	157	-	(932)	(1,330)
Recognised directly in equity	-	29	-	-	126		155
Disposal of subsidiaries	-	179	(64)	(627)	-	-	(512)
At 31 December 2010	**3,573**	**3,090**	**1,888**	**157**	**126**	**-**	**8,834**

Deferred income tax liabilities	**Revaluation of property, plant and equipment and differences due to different depreciation rates**	**Investment relief**	**Total**
At 1 January 2009	**(400,564)**	**(19,278)**	**(419,842)**
Recognised in the statement of comprehensive income	40,491	5,801	46,292
Recognised in other comprehensive income	122,527	-	122,527
At 31 December 2009	**(237,546)**	**(13,477)**	**(251,023)**
Recognised in the statement of comprehensive income	9,066	3,112	12,178
Recognised in other comprehensive income	(93)	-	(93)
Recognised directly in equity	-	94	94
Disposal of subsidiaries	243	146	389
At 31 December 2010	**(228,330)**	**(10,125)**	**(238,455)**

Company

Deferred income tax assets	**New customer connection income**	**Impairment of assets**	**Accrued charges**	**Overdeclaration of electricity**	**Total**
At 1 January 2009	**5,153**	**3,702**	**1,995**	**968**	**11,818**
Recognised in the statement of comprehensive income	(1,434)	(506)	(179)	(36)	(2,155)
At 31 December 2009	**3,719**	**3,196**	**1,816**	**932**	**9,663**
Recognised in the statement of comprehensive income	(146)	(141)	(84)	(932)	(1,303)
At 31 December 2010	**3,573**	**3,055**	**1,732**	**-**	**8,360**

Deferred income tax liabilities	**Revaluation of property, plant and equipment and differences due to different depreciation rates**	**Invest-ment relief**	**Total**
At 1 January 2009	**(399,253)**	**(19,278)**	**(418,531)**
Recognised in the statement of comprehensive income	40,207	5,801	46,008
Recognised in other comprehensive income	121,830	-	121,830
At 31 December 2009	**(237,216)**	**(13,477)**	**(250,693)**
Recognised in the statement of comprehensive income	9,058	3,121	12,179
At 31 December 2010	**(228,158)**	**(10,356)**	**(238,514)**

The amount of income tax expenses reported in the statement of comprehensive income attributable to operations for the year can be reconciled to the amount of income tax expenses that would result from applying the statutory income tax rate of 15 per cent for 2009 and 20 per cent for 2010 to pre-tax income from continuing operations as follows:

	Group		**Company**	
	2010	**2009**	**2010**	**2009**
		(restated)		**(restated)**
Profit/(loss) before income tax	(5,958)	(36,707)	(4,994)	(34,353)
Income tax calculated at 15% (2009: 20%)	(893)	(7,341)	(749)	(6,870)
Expenses not deductible for tax purposes	3,923	1,253	3,583	623
Income not subject to tax	(354)	(386)	(368)	(386)
Adjustment of previous year income tax	(2,156)	-	(2,146)	-
Change in income tax rate	-	(4,324)	-	(3,968)
	520	**(10,798)**	**320**	**(10,601)**

20. Sales revenue

	Group		**Company**	
	2010	**2009**	**2010**	**2009**
		(Restated)		**(Restated)**
Electricity supply and distribution	1,237,033	1,147,376	1,237,630	1,148,038
New customer connection income	17,449	20,691	17,449	20,691
Other	12,472	9,451	4,837	5,890
	1,266,954	**1,177,518**	**1,259,916**	**1,174,619**

21. Employee benefits and related social security contributions

	Group		**Company**	
	2010	**2009**	**2010**	**2009**
Wages and salaries	69,560	73,696	55,221	61,599
Termination benefits	6,407	1,687	6,135	1,480
Social security contributions	23,531	23,601	19,818	19,785
Other payroll related expenses	81	89	68	68
Costs relating to accrued vacation reserve	6,709	7,706	5,586	5,904
Social security contributions from vacation reserve	2,090	2,395	1,740	1,836
	108,378	**109,174**	**88,568**	**90,672**

22. Finance income/(costs)

	Group		Company	
	2010	**2009**	**2010**	**2009**
Finance income				
Late-payment interest on trade receivables	1,461	1,072	1,462	1,095
Interest income from credit institutions	2,462	4,577	2,462	4,568
Interest income from loans granted	1,224	1,351	1,224	1,472
Dividends income	-	-	710	812
	5,147	**7,000**	**5,858**	**7,947**
Finance (costs)				
Interest paid on loans	(3,230)	(4,373)	(3,200)	(4,321)
Derivates – interest rate swaps	(717)	(225)	(717)	(225)
Foreign currency exchange (loss)	(2)	(1)	(2)	(1)
	(3,949)	**(4,599)**	**(3,919)**	**(4,547)**
Finance income,(costs), net	**1,198**	**2,401**	**1,939**	**3,400**

23. Other expenses

	Group		Company	
	2010	**2009**	**2010**	**2009**
Write-offs of property, plant and equipment	1,951	3,488	1,951	3,479
Taxes (other than income tax)	2,925	3,353	2,622	2,967
Expenses related to cash collection	3,705	4,011	3,705	4,011
Consultancy services	347	1,633	280	1,525
Expenses related to client relations	1,085	1,048	1,085	1,048
Cleaning services	1,464	2,291	1,324	2,075
Communications	921	1,626	810	1,436
Security	931	1,286	581	750
Insurance	286	462	41	132
Change in impairment provision for accounts receivable	1,845	3,101	1,849	3,307
Payments under the collective agreement and other additional payments	1,088	1,300	1,030	1,181
Training	444	707	359	631
Postal services	571	869	550	846
Advertising, public relations	1,625	1,310	1,581	1,245
Stationery	323	456	275	397
Heating	641	853	570	807
Lease	2,520	1,213	2,011	1,643
Publishing	144	302	144	302
Asset management costs	616	293	615	293
Business trips	117	112	63	59
Charity, support	116	81	116	81
Impairment of investment in subsidiary	-	-	2,189	-
Gain on revaluation of investments in subsidiaries when control is lost and significant influence is acquired (Note 30)	(2,520)	-	(2,841)	-
Impairment of investment in associate	326	-	-	-
Other	4,479	435	2,103	1,201
	25,950	**30,230**	**23,013**	**29,416**

24. Basic and diluted earnings per share

Basic

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

	Group		Company	
	2010	**2009 (restated)**	**2010**	**2009 (restated)**
Net profit (loss) attributable to shareholders of the Company (in LTL thousands)	(6,807)	(25,909)	(5,314)	(23,752)
Weighted average number of shares (thousands)	492,405	492,405	492,405	492,405
Basic earnings (deficit) per share (expressed in LTL per share)	(0.014)	(0.053)	(0.011)	(0.048)

Diluted

Diluted earnings (deficit) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares that could theoretically be issued, as disclosed in Note 27, in exchange for the contributions in the form of electricity distribution equipment that is under common use by its owners and the Company. Until 31 December 2010, the Company had no dilutive potential ordinary shares issued that could be acquired in exchange for electricity distribution equipment and does not plan to issue such shares in future.

25. Dividends per share

Approved dividends per share

	2010	**2009**
Approved dividends	98,112	-
Weighted average number of shares (thousands)	492,405	492,405
Approved dividends per share (in LTL)	0.20	-

During the annual general shareholders meeting held on 21 May 2010 the shareholders declared dividends of LTL 98 112 thousand.

26. Financial risk management

Credit risk

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

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

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

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

As at 31 December 2010, the maximum exposure to credit risk of the Group and the Company amounted to LTL 179,709 thousand and LTL 176,474 thousand, respectively (31 December 2009: LTL 241,894 thousand and LTL 238,607 thousand, respectively).

Interest rate risk

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

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

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

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

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

As at 31 December 2010 and 2009, borrowings of the Group and the Company, interest rate risk of which is managed by interest rate swaps, amounted to LTL 69,056 thousand and LTL 79,932 thousand, respectively.

As at 31 December 2010 and 2009, the Group and the Company had no financial instruments designated to manage exposure to fluctuation in interest rates arising from the remaining amount of borrowings (other than described above).

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

	Group		Company	
	Increase/ decrease in percentage points	**Effect on profit before tax**	**Increase/ decrease in percentage points**	**Effect on profit before tax**
2010				
EUR	+1.0 %	(701)	+1.0 %	(701)
EUR	-1.0 %	701	-1.0 %	701
LTL	+1.0 %	(39)	+1.0 %	(32)
LTL	-1.0 %	39	-1.0 %	32
2009				
EUR	+1.0 %	(1,288)	+1.0 %	(1,288)
EUR	-1.0 %	1,288	-1.0 %	1,288
LTL	+1.0 %	(105)	+1.0 %	(86)
LTL	-1.0 %	105	-1.0 %	86

Foreign exchange risk

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

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amounts of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 31 December 2010 were 0.73 and 0.72, respectively (31 December 2009: 1.08 and 1.06, respectively). The Company's liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 31 December 2010 were 0.71 and 0.7, respectively (31 December 2009: 1.05 and 1.05, respectively). In order to minimise balances of cash in bank accounts, the Company is using credit lines.

As at 31 December 2010 the Group's and Company's current liabilities exceeded its current assets by LTL 72 383 thousand and LTL 77 692 thousand, respectively (31 December 2009 – did not exceed). In 2010 the Group's and the Company's cash flows from operating activities were positive and amounted to LTL 217 094 thousand and LTL 213 925 thousand, respectively. In 2010 the Group and the Company repaid borrowings of LTL 24 510 thousand. In the opinion of the management, the cash flows generated from operations of the newly formed entity LESTO AB in the future will be sufficient to meet its liabilities as they fall due.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2010 and 2009 based on contractual undiscounted payments.

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowings and other liabilities	31,091	25,781	106,978	22,500	186,350
Trade and other payables	135,015	-	347	-	135,362
At 31 December 2009	**166,106**	**25,781**	**107,325**	**22,500**	**321,712**
Interest bearing borrowings and other liabilities	482	54,272	76,199	16,839	147,792
Trade and other payables	170,731	-	800	-	171,531
At 31 December 2010	**171,213**	**54,272**	**76,999**	**16,839**	**319,323**

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2010 and 2009 based on contractual undiscounted payments.

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowings and other liabilities	31,091	25,781	106,978	22,500	186,350
Trade and other payables	137,394	-	347	-	137,741
At 31 December 2009	**168,485**	**25,781**	**107,325**	**22,500**	**324,091**
Interest bearing borrowings and other liabilities	482	54,272	76,199	16,839	147,792
Trade and other payables	172,257	-	800	-	173,057
At 31 December 2010	**172,739**	**54,272**	**76,999**	**16,839**	**320,849**

Fair values of financial instruments

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

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

The carrying amount of the Group's and the Company's financial assets and liabilities approximates their fair value except for mortgage loans as it is disclosed in Note 6.

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

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

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

Financial instruments by category

Group	**Loans and receivables**	**Total**
At 31 December 2010		
Loans and deposits	8,367	8,367
Trade and other receivables	101,695	101,695
Cash and cash equivalents	69,647	69,647
	179,709	**179,709**

	Other financial liabilities	**Liabilities at fair value through profit and loss**	**Total**
At 31 December 2010			
Borrowings	143,102	-	143,102
Trade and other payables	178,631	-	178,631
Derivative financial instruments	-	1,229	1,229
Other liabilities	593	-	593
	322,326	**1,229**	**323,555**

Company	**Loans and receivables**	**Total**
At 31 December 2010		
Loans and deposits	8,367	8,367
Trade and other receivables	100,152	100,152
Cash and cash equivalents	67,955	67,955
	176,474	**176,474**

	Other financial liabilities	**Liabilities at fair value through profit and loss**	**Total**
At 31 December 2010			
Borrowings	143,102	-	143,102
Trade and other payables	178,814	-	178,814
Derivative financial instruments	-	1,229	1,229
Other liabilities	593	-	593
	322,509	**1,229**	**323,738**

Group	**Loans and receivables**	**Total**
At 31 December 2009		
Loans and deposits	120,512	120,512
Trade receivables	97,308	97,308
Cash and cash equivalents	24,074	24,074
	241,894	**241,894**

	Other financial liabilities	**Liabilities at fair value through profit and loss**	**Total**
At 31 December 2009			
Borrowings	180,432	-	180,432
Trade payables	134,954	-	134,954
Derivative financial instruments	-	512	512
Other liabilities	373	-	373
	315,759	**512**	**316,271**

Company	**Loans and receivables**	**Total**
At 31 December 2009		
Loans and deposits	117,500	117,500
Trade receivables	96,789	96,789
Cash and cash equivalents	21,306	21,306
	235,595	**235,595**

Company	**Other financial liabilities**	**Liabilities at fair value through profit and loss**	**Total**
At 31 December 2009			
Borrowings	180,432	-	180,432
Trade payables	137,350	-	137,350
Derivative financial instruments	-	512	512
Other liabilities	371	-	371
	318,153	**512**	**318,665**

27. Commitments and contingencies

Buyout of electricity equipment

According to Order No 4-450 of 3 December 2003 of the Minister of Economy, as amended by Order No 4-72 of 15 February 2005, the Company has been granted with the right to buy out from individuals and companies electricity distribution equipment jointly used by them and the Company. The Company can buy out those equipment in one of the following ways: either by transferring its newly issued shares to the owners of those equipment, the issue price of which should be paid by way of contributions in kind (i.e. electricity equipment under common use), or by signing agreements on sale-purchase of electricity equipment under common use (cash payments).

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

Under the new rules adopted, the deadline for the submission of requests to buy out electricity distribution equipment was extended until 31 December 2010 (not applicable in respect of homestead cooperatives). Furthermore, the new rules require that in case requests to buyout electricity equipment are not received by 31 December 2010, energy companies shall present proposals to owners of electricity equipment regarding the buyout of their networks, provided that owners are known, not later than by 1 April 2011.

According to Resolution No. 1281 of 5 December 2007 of the Government of the Republic of Lithuania, the following deadlines for the submission of documents by homestead cooperatives were established: applications to energy companies with the requests to buyout equipment had to be submitted by 1 July 2009. In accordance with the Energy Minister's Order No. 1257 of 31 August 2010 the deadline was extended until 1 July 2011.

At the present moment, the Company is waiting for additional requests to be submitted until 1 July 2011, also reviews requests already received, assesses the reasonability of amounts requested to be paid and carries out the buyout of electricity equipment by making only cash payments.

Capital expenditure commitments

As at 31 December 2010, the Group's and the Company's capital expenditure contracted for at the balance sheet date but not recognised in the financial statements amounted to LTL 69 900 thousand.

28. Related-party transactions

The Company's related parties in 2010 and 2009 were:

- LEO LT, AB, from 4 June 2010 Visagino Atominė Elektrinė UAB – the main shareholder of the Company, and its group entities. Visagino Atominė Elektrinė UAB (31 December 2009: LEO LT, AB) is wholly-owned by the Lithuanian Government (ultimate controlling party);
- Entities controlled by the Ministries of Economy and Energy of the Republic of Lithuania;
- E.ON Ruhrgas International AG (Germany);
- Subsidiaries of the Company;
- Associates of the Company;
- Management of the Company.

Transactions with related parties are presented below:

Sales of goods and services to:	Group 2010	Group 2009	Company 2010	Company 2009
Subsidiaries	-	-	1,334	4,072
Associates	5,220	-	1,619	-
Visagino Atominė Elektrinė UAB (2009 – LEO LT, AB) Group entities	7,604	3,137	3,368	3,066
Ignalina Nuclear Power Station	199	8	199	8
Other entities controlled by the Ministry of Energy of the Republic of Lithuania	168	257	168	257
	13,191	**3,402**	**6,688**	**7,403**

Purchases of goods, services and property, plant and equipment from:	Group 2010	Group 2009	Company 2010	Company 2009
Subsidiaries	-	-	53,021	76,228
Associates	42,799	-	31,646	-
Visagino Atominė Elektrinė UAB (2009 – LEO LT, AB)	29,256	1,177	29,254	1,177
Visagino Atominė Elektrinė UAB (2009 – LEO LT, AB) Group entities	709,204	504,463	709,158	504,426
Ignalina Nuclear Power Station	-	135,395	-	135,395
Other entities controlled by the Ministry of Energy of the Republic of Lithuania	29	15,449	1	14,863
	781,288	**656,484**	**823,080**	**732,089**

Compensation of key management personnel

Key management includes 4 members.

	Group 2010	Group 2009	Company 2010	Company 2009
Salaries and other short-term employee benefits	973	1,189	973	1,189

Balances arising from transactions with related parties are presented below:

Receivables from related parties (Note 8)	Group 2010	Group 2009	Company 2010	Company 2009
Subsidiaries	-	-	78	179
Associates	866	-	687	-
Visagino Atominė Elektrinė UAB (2009 – LEO LT, AB) Group entities	7,523	7,634	6,280	7,550
Ignalina Nuclear Power Station	166	1	166	1
Other entities controlled by the Ministry of Energy of the Republic of Lithuania	12	18	12	17
	8,567	**7,653**	**7,223**	**7,747**

Payables to related parties (Note 16):	Group 2010	Group 2009	Company 2010	Company 2009
Subsidiaries	-	-	7,045	12,644
Associates	13,696	-	12,293	-
Visagino Atominė Elektrinė UAB (2009 – LEO LT, AB) Group entities	77,141	62,572	77,141	62,571
Ignalina Nuclear Power Station	-	8,365	-	8,365
Other entities controlled by the Ministry of Energy of the Republic of Lithuania	-	1,756	-	1,756
	90,837	**72,693**	**96,479**	**85,336**

*Ignalina Nuclear Power Station is an entity controlled by the Government of the Republic of Lithuania. In 2009 the Group and th Company purchased electricity from this entity.

Loans granted

On 4 June 2010, the Company and LEO LT, AB concluded an agreement regarding the offsetting of the commitment of the Company to pay to LEO LT, AB dividends of LTL 70,000 thousand and the commitment of LEO LT, AB to repay to the Company a loan of LTL 70,000 thousand. In 2010, interest income received by the Company from the loan granted to LEO LT, AB amounted to LTL 594 thousand (2009: LTL 192 thousand).

Issued guarantees

In 2010, Company guaranteed the bank for overdrafts taken by subsiriaries: amount of guarantee for Elektros tinklo paslaugos UAB amounted to LTL 4 000 000 and for Tetas, UAB- LTL 3 450 000.

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

		Amounts receivable past due but not impaired					
	Amounts receivable neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	Total
Company	7,223	-	-	-	-	-	7,223
Group	8,567	-	-	-	-	-	8,567

The ageing analysis of amounts receivable from related parties as at 31 December 2009 is presented below:

		Amounts receivable past due but not impaired					
	Amounts receivable neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	Total
Company	7,668	66	13	-	-	-	7,747
Group	7,592	48	13	-	-	-	7,653

Contributions to associates

Contributions to associates which are members of Visagino Atominė Elektrinė UAB Group are disclosed in Note 30.

29. Capital risk management

Pursuant to the Lithuanian Law on Companies the share capital of a public company must be not less than LTL 100 thousand and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2010 and 31 December 2009, the Group and the Company complied with these requirements.

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

	Group		Company	
	2010	2009	2010	2009
Equity	2,194,230	2,288,729	2,191,583	2,287,976
Assets	2,976,064	3,094,039	2,972,693	3,092,562
Equity ratio (equity to assets ratio)	74%	74%	74%	74%

30. Investments in associates

On 21 October 2010, the share subscription agreement was signed with Kruonio Investicijos UAB (member of Visagino Atominė Elektrinė UAB Group) (on 28 October 2010 changed the name to NT Valdos UAB). The Company acquired 29 per cent of the authorised share capital of NT Valdos UAB. Purchase consideration for the shares acquired comprised in-kind contribution of property plant and equipment with the carrying value of LTL 63,765 thousand (equivalent to fair value) (Note 4) and transfer of 22,998 thousand ordinary registered shares of Rytra UAB with the fair value of LTL 25,839 thousand at the date of the transaction (before the transaction the Company owned 100 per cent of shares of Rytra UAB). Contributed assets were evaluated by independent valuators Re&Solution Valuations UAB.

On 21 October 2010, the share subscription agreement was signed with Technologijų ir Inovacijų Centras UAB (member of Visagino Atominė Elektrinė UAB Group). The Company acquired 37 per cent of the authorised share capital of Technologijų ir Inovacijų Centras UAB. Purchase consideration for the shares acquired comprised in-kind contribution of property plant and equipment with the carrying value of LTL 12,596 thousand (equivalent to fair value) (Note 4), intangible assets with the carrying value of LTL 952 thousand, inventory with the carrying value of LTL 42 thousand and a monetary contribution of LTL 3,000 thousand. Contributed assets were evaluated by independent valuators Re&Solution Valuations UAB.

On 15 October 2010, the share subscription agreement was signed with TETAS UAB (subsidiary of the Company). The authorised share capital of TETAS UAB was increased by LTL 3,679 thousand by issuing 1,533 thousand ordinary shares of LTL 2.40 nominal value each. Additional 208 thousand shares acquired by the Company were paid for by a monetary contribution of LTL 500 thousand. Other shareholders acquired 1,325 thousand ordinary shares. After this transaction the Company lost control over TETAS UAB due to contributions made by other shareholders (before the transaction the Company owned 100 per cent of shares of TETAS UAB). TETAS UAB became the associate of the Company in which it holds shareholding interest of 39 per cent.

Movements in investments in associates are summarised below:

	Grupė		Bendrovė	
	2010 m.	**2009 m.**	**2010 m.**	**2009 m.**
Opening balance	-	-		-
Acquisition of associates	80,855	-	80,855	-
Gain on revaluation of investments in subsidiaries when control is lost and significant influence is acquired	2,520	-	2,841	-
Transfer from investments in subsidiaries when control is lost	24,986	-	24,986	-
Share of (loss of associates)	(921)	-	-	-
Share of other comprehensive income/(expense) of associates	(1,291)	-	-	-
Impairment charge	(326)	-	-	-
Closing balance	**105,823**	**-**	**108,682**	**-**

Financial results of operations of associates are presented below:

Name	Country	Assets	Liabilities	Sales revenue	Profit (loss) for the year	Percentage of shares
NT Valdos UAB	Lithuania	341,186	12,471	10,505	(3,513)	29
Technologijų ir Inovacijų Centras UAB	Lithuania	50,120	14,578	11,047	(4,026)	37
TETAS UAB	Lithuania	23,706	9,974	24,805	382	39

31. Investments in subsidiaries

<u>For the purpose of the Company's financial statements</u>

	2010	**2009**
Opening balance	36,643	36,643
Contribution to share capital	2,189	-
Impairment charge (Note 23)	(2,189)	-
Loss of control over subsidiaries (Note 30)	(24,986)	-
Closing balance	**11,657**	**36,643**

Loss of control over subsidiaries TETAS UAB and Rytra UAB is disclosed in Note 30.

<u>For the purpose of the Group's financial statements</u>

On 26 October 2010, the share capital of the Company's subsidiary Elektros Tinklo Paslaugos UAB was increased by 4,731,440 ordinary registered shares with par value of LTL 1 each. The total amount of the contribution was LTL 4,731 thousand. These shares were redeemed by Lietuvos Energija AB (company of Visagino Atominė Elektrinė UAB group). As a result, the Company's shareholding interest in the share capital of Elektros Tinklo Paslaugos UAB decreased from 100 to 79 per cent. The Company's portion of the above-mentioned contribution amounted to LTL 3,365 thousand, whereas non-controlling interest's portion amounted to LTL 1,366 thousand.

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

	2010
Consideration received – contributions of a non-controlling interest in the share capital of the subsidiary	3,365
Net assets transferred to non-controlling interest	(3,967)
Loss on disposal of interest in subsidiary	**(602)**

32. Business combinations

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

The details of the business combination are given below:

Cash received	288
Property, plant and equipment received	282
Inventories received	780
Property, plant and equipment transferred	(1,272)
Inventories transferred	(1,235)
Recognised deferred tax	220
(Loss) on business combination	***(937)***

33. Change in accounting policies

The Company and the Group made retrospective adjustments from 1 July 2009 to income received from new customer connections (Note 2.1). The effect of change in accounting policies is presented below. Change in accounting policies had no impact on the balance sheet as of 31 December 2008.

The tables below summarises the above-mentioned adjustments.

Group	**At 31 December 2009 (before adjustment)**	**Effect of change in accounting policies**	**At 31 December 2009 (after adjustment)**
Statement of financial position			
Total assets	**3,094,039**	**-**	**3,094,039**
Share capital	492,405	-	492,405
Retained earnings	490,362	11,418	501,780
Other items of equity	1,294,544	-	1,294,544
Total equity	**2,277,311**	**11,418**	**2,288,729**
Deferred income	201,451	(13,813)	187,638
Advances received, accrued charges and deferred income	29,761	(460)	29,301
Current income tax liabilities	3,828	2,855	6,683
Other liabilities	581,688	-	581,688
Total liabilities	816,728	(11,418)	805,310
Total equity and liabilities	**3,094,039**	**-**	**3,094,039**
Statement of comprehensive income			
Sales revenue	1,163,245	14,273	117,7518
Income tax	13,653	(2,855)	10,798
Other items of the profit (loss) account	(1,214,225)	-	(1,214,225)
(Loss) for the year	(37,327)	11,418	(25,909)
Other comprehensive income/(expense)	**(108,001)**	**-**	**(108,001)**
Total comprehensive income/(expense) for the year	**(145,328)**	**11,418**	**(133,910)**

Company	At 31 December 2009 (before adjustment)	Effect of change in accounting policies	At 31 December 2009 (after adjustment)
Statement of financial position			
Total assets	**3,092,562**	**-**	**3,092,562**
Share capital	492,405	-	492,405
Retained earnings	497,175	11,418	508,593
Other items of equity	1,286,978	-	1,286,978
Total equity	**2,276,558**	**11,418**	**2,287,976**
Deferred income	201,451	(13,813)	187,638
Advances received, accrued charges and deferred income	29,708	(460)	29,248
Current income tax liabilities	3,828	2,855	6,683
Other liabilities	581,017	-	581,017
Total liabilities	816,004	(11,418)	804,586
Total equity and liabilities	**3,092,562**	**-**	**3,092,562**
Statement of comprehensive income			
Sales revenue	1,160,346	14,273	1,174,619
Income tax	13,456	(2,855)	10,601
Other items of the profit (loss) account	(1,208,972)	-	(1,208,972)
(Loss) for the year	(35,170)	11,418	(23,752)
Other comprehensive income/(expense)	**(105,448)**	**-**	**(105,448)**
Total comprehensive income/(expense) for the year	**(140,618)**	**11,418**	**(129,200)**

34. Non-monetary transactions

For the purpose of the statement of cash flows the main non-monetary items eliminated were as follows:

In 2010

Dividends were set off against a loan of LTL 70,000 thousand repayable by LEO LT, AB (Note 28).

Contribution in-kind to the share capital of associate Technologijų ir inovacijų centras UAB of LTL 13,590 thousand (Note 30).

Contribution in-kind to the share capital of associate Kruonio investicijos comprising property, plant and equipment of LTL 63,765 thousand and shares of subsidiary of LTL 25,839 thousand (Note 30).

In 2009

In 2009 no non-monetary transactions have occurred.

35. Events after the end of the reporting period

On 1 January 2011, 00:00 am, the merger of Company with VST AB was effected and LESTO AB was formed. All assets, rights and obligations of the Company were transferred to this entity. This newly established company continues the licensed activity of electricity distribution and public supply carried out by the Company.

RYTŲ SKIRSTOMIEJI TINKLAI GROUP, AB CONSOLIDATED ANNUAL REPORT, 2010

1. GENERAL INFORMATION

Essential information

Implementing energy sector reform plan, both electricity distribution companies- VST, AB (hereinafter- VST) and Rytų Skirstomieji Tinklai, AB (hereinafter- RST, Company) were reorganized by the way of merger and since 1 January 2011 ended their activity as legal entities.

Shareholders of the companies approved the decision to establish new legal entity- LESTO, AB (hereinafter- LESTO) that took over RST and VST assets, rights and obligations. On 1 January 2011 LESTO started activity as a licensed public supplier and operator of distribution network.

Reporting period covered by the annual report

The annual report provides information on the activities of Rytų skirstomieji tinklai company group (hereinafter-RST Group) in the financial year 2010 for its shareholders, creditors and other stakeholders.

Regulation of the annual report

The consolidated annual report of RST has been prepared in accordance with Article 25 of the Law on Financial Statements of Entities of the Republic of Lithuania and Article 9 of the Law on Consolidated Accounts of Entities of the Republic of Lithuania.

Persons responsible for the information provided in the annual report

Office	Name, surname	Telephone
AB LESTO General Manager	Arvydas Tarasevičius	+370 5 277 7524
AB LESTO Director of Finance and Administration Division	Ramutė Ribinskienė	+370 5 277 7524

Main data on issuer:

Name of the company	Rytų skirstomieji tinklai, AB
Company Reg. No.	110870890
Authorised Capital	LTL 492 404 653
Former Address	Žvejų str. 14, LT-09310 Vilnius
Legal and organisational form	Joint stock company, private legal entity with limited liability
Date and place of registration	31 December 2001, Ministry of the Economy
Register in which data on the company are collected and stored	Register of Legal Entities

Nature of the main activities of the Company

The main activity of RST was electricity distribution in low and medium voltage power networks as well as power supply (sale) to customers in the eastern part of Lithuania.

As a distributive network operator, RST was responsible for the maintenance and development of low and medium voltage electricity networks. As a public electricity supplier, it supplied electricity to residents and business customers in the territory serviced.

RST mission is reliable, safe and efficient supply of electricity to customers.

Information on RST Group

RST, subsidiary company Elektros tinklo paslaugos, UAB and three associated companies NT Valdos UAB, Technologijų ir inovacijų centras UAB, Tetas UAB and subsidiaries of associated companies Rytra UAB (wholly-owned by NT Valdos UAB), Energetikos Pajėgos UAB (wholly-owned by Tetas UAB), Public Institutional Centre of Training Energy Specialists (wholly-owned by Technologijų ir Inovacijų Centras UAB) made up RST Group.

The main objective of subsidiary and associated companies was to provide services to the Group, expanding the circle of external customers at the same time.

Nature of main activities of subsidiary and associated companies

Company	Nature of activities
Elektros tinklo paslaugos, UAB	The company provided the services of technical maintenance, operation and repair of the electric network and equipment, performed low voltage power network construction works and connected electrical equipment of new customers to the distribution network
Tetas, UAB	The company provided the services of technical maintenance, operation and repair of the electric network and equipment, performed low voltage power network construction works and connected electrical equipment of new customers to the distribution network
Technologijų ir inovacijų centras, UAB	Information technology and communication services
NT Valdos UAB	Rental services
Rytra UAB	Transportation services
Energetikos Pajėgos UAB	Preparation of electrification projects
Public Institutional Centre of Training Energy Specialists	Training services

More information on RST Group is presented in item 1 of the Explanatory Notes to the Audited Financial Statements of Rytų skirstomieji tinklai Group,AB for 2010.

2. OVERVIEW OF ACTIVITIES

Reorganization of the Company

On 4 January, 2010 the Extraordinary General Meeting of Shareholders of RST adopted a decision concerning preparation of reorganization conditions for RST and VST by the way of merger.

On 6 September, 2010 the Board approved the draft of the terms of reorganization of VST and RST by the way of merger. According to Law on Companies article 65, reorganization terms were announced three times publicly.

On 13 December, 2010 General Meeting of Shareholders of RST adopted a decision, to reorganize RST and VST by merger, establishing LESTO AB. Articles of Association have been approved.

On 13 December, 2010 the General Meeting of Shareholders of LESTO elected members of the Board of LESTO. Members of the Board: Arvydas Darulis, Kęstutis Žilėnas, Aloyzas Vitkauskas, Dalius Misiūnas, Šarūnas Vasiliauskas.

On 13 December, 2010 the Board of LESTO elected Arvydas Darulis as the Chairman of the Board of LESTO and Arvydas Tarasevičius as the General Manager of LESTO.

On 20 December, 2010 trading in shares of RST in the Main List of AB NASDAQ OMX Vilnius stock exchange had been suspended until deregistration of RST from the Register of Legal Entities of Republic of Lithuania.

On 27 December, 2010 LESTO was registered in the Register of Legal Entities of the Republic of Lithuania. Shareholders who owned RST or VST shares became shareholders of LESTO.

On 30 December, 2010 the licenses for activities of the electricity market operator and electricity supply was issued to LESTO by the National Control Commission for Prices and Energy.

On 31 December, 2010 RST and LESTO and also VST and LESTO signed transfer-acceptance acts according to which all the assets, rights and obligations of RST and VST were transferred to LESTO from 1 January, 2011.

On 31 December, 2010 RST and VST were deregistered from the Register of Legal Entities of the Republic of Lithuania.

On 1 January, 2011 LESTO started activity as a licensed public supplier and operator of distribution network.

Other key events of reporting period

On 30 April, 2010 the General Meeting of Shareholders of RST adopted a decision to pay out dividends to the shareholders of the Company (dividends per share - LTL 0.199).

On 27 May, 2010 the National Control Commission for Prices and Energy took a decision to set and announce public electricity prices, tariffs and application procedure supplied by RST for the second half of 2010. Since 1 July, 2010 the nighttime tariff for the household consumers were reduced by 2 LTL cents/kWh (including VAT). Electricity tariffs for the other groups of consumers did not change.

Continuing of the LEO LT, AB liquidation and implementing energy sector reform plan (which was approved by the Government), on 4 June liquidating LEO LT, AB lost all shares and votes of RST. Visagino atominė elektrinė, UAB indirectly controlled by the Republic of Lithuania, acquired from the liquidating LEO LT, AB 351 316 161 ordinary registered shares (face value of each share is equal to LTL 1 (one) LTL). These shares were acquired by increasing Visagino atominė elektrinė, UAB share capital.

Implementing energy sector reform plan on 28 September, 2010 General Meeting of Shareholders of RST took a decision to become a participant and to invest assets and subsidiary Rytra, UAB in the equity capital of Technologijų ir Inovacijų Centras, UAB and Kruonio Investicijos, UAB (since 28 October, 2010 official title of the company- NT Valdos, UAB). Company acquired 37.41% of Technologijų ir Inovacijų Centras, UAB shares and 28.94% of NT Valdos, UAB shares.

On 1 November, 2010 RST RST acquired the electricity distribution network situated in Visaginas municipality and started to carry out the electricity distribution and supply activities.

The Company's strategy and objectives

In 2010, Company focused on improvement of costumer's satisfaction, distributive network reliability and preparation for the energy sector reorganization. Strategic objectives of the RST included achieving higher costumer's satisfaction level, better distributives network reliability and quality rates, creation of motivating work environment, seeking for innovations and efficiency.

On 31 December, 2010 RST were deregistered from the Register of Legal Entities of the Republic of Lithuania, LESTO took over all the activities, assets, rights and obligations of RST from 1 January, 2011.

LESTO objectives- effective electricity distribution, safe and reliable exploitation, maintenance, management and expansion of distributive network; electricity transmission and satisfaction of other costumers needs.

Development and expansion of activities

During 2010 RST investments in electricity network expansion and modernization (including purchase of distributive network located in Visaginas municipality) made up LTL 157.4 million i.e. 5.3% more than in 2009, when investments totaled LTL 149.5 million. Growth of Company investments in 2010 was a result of purchase of distributive network in Visaginas municipality. In 2010 number of consumer connected to the network went down by 22% percent and amounted to LTL 38.5 million. Investments in 0.4- 10 kV power networks rose by LTL 5.2 million or 15.6% compared to 2009.

RST investment in non-current assets

Type of investment	2009	2010	Change	Investment structure in 2009	Investment structure in 2010
	LTL million		%		
Connection of electrical facilities of new customers	49.4	38.5	-22.0	33.0	24.5
0.4-10 kV power networks	33.4	38.6	15.6	22.3	24.5
Transformer substations and distribution points	40.9	35.0	-14.4	27.4	22.2
Other investments	25.8	45.2*	75.1	17.3	28.7
Total	149.5	157.4	5.3	100	100

*Including LTL 29.6 million woth purchase of Visaginas municipality distributive network.

In 2010, RST completed reconstruction of two transformer substations (110/35/10 kV VE2-Vingio TP and, 110/10 kV Bakšiai TP), modernised three distribution points (10 kV SP-69 in Vilnius, 10 kV SP-84 in Panevėžys, 10 kV SP-3 in Utena). One new distribution point (10 kV SP-481 in Panevėžys) was built.

Quality of electricity supply (SAIDI, SAIFI)

In 2010, the system average interruption duration index (SAIDI) per customer made up 260.76 min, in 2009 this index reached 182.6 min. The system average interruption frequency index (SAIFI) per customer made up 1.87 times in 2010, respectively in 2009- 1.59 times. The increase in these indexes was determined by a strong effect of natural disasters. Excluding the effect of natural disasters, the system average interruption duration index (SAIDI) per customer in 2010 made up 80.31 and was lower than in 2009, when this index made up 82.45 min.. The system average interruption frequency index (SAIFI) per customer excluding the effect of natural phenomena was lower in 2010 than in 2009. In 2010, SAIFI stood at 0.98 times. In 2009, it made up 1.01 times.

Personnel

Increased effectiveness of the processes and implementation of energy sector reform made significant change in employees number. Number of RST employees went down by 20.5 percent during 2010. At the end of the year RST had employed 1424 employees i.e. 368 employees less than in the end of 2009.

Number of employees in RST Group

Įmonė	Number of employees		Change
	31 12 2009	31 12 2010	
RST Group	2 257	1 865	-17.4%
RST	1 792	1 424	-20.5%
Elektros tinklo paslaugos UAB	465	441	-5.2%

Optimisation of the management structure and introduction of modern technologies allowed to reduce the number of workers while the number of qualified specialists was rising. Managers and specialists accounted for 4/5 of all employees.

RST employees by category

Category	Number of employees		Change
	31 12 2009	31 12 2010	
Managers	236	196	-16,9%
Specialists	1 199	932	-22,3%
Workers	357	296	-17,1%
All employees	1 792	1424	-20,5%

The Company introduced remuneration system that remunerated employees according to their results and value created for an organisation and team. The new remuneration system was closely related to changes in the country's salary market: staff salaries might be revised every year depending on the results of Lithuanian salary market research.

Salary of RST employee consisted of variable and non-variable remuneration component.

RST introduced employees performance management system, that aimed to ensure that personal objectives were an outcome of Company objectives. Major component of employees performance management system was Annual Conversation. The purpose of Annual Conversation was to set and measure annual personal objectives for employees. During Annual Conversation RST employees and supervisors received feedback about their performance and discussed individual competences, carrier and educational opportunities.

Average salary of RST employees

Category	Gross salary		Change
	2009 m	2010 m.	
Managers and specialists	3 343	3 351	0.25%
Workers	2 239	2 275	1.60%
All employees	3 112	3 125	0.42%

Managers and specialists accounted for 4/5 of all employees.

Distribution of RST employees by education

Education	Number of employees			
	31 12 2009		31 12 2010	
Higher	825	46.0 %	677	47.5 %
Post-secondary	630	35.2 %	476	33.4 %
Secondary	330	18.4 %	266	18.7 %
Other	7	0.4 %	6	0.4 %

Special rights of the issuer's employees set out in the collective agreement

The main social protection of RST employees was provided in the collective agreement, which was updated every two years. The collective agreement specified a scheme of remuneration of RST employees, working, economic and social conditions as well as additional guarantees applicable to employees (allowances in case of accidents, illnesses, death of family members, childbirth allowance and anniversary allowance, additional holidays with pay in case of birth of a child, marriage, death of a family member and in other cases, higher remuneration for work on non-working days (off-schedule work) than stipulated in the Labour Code).

Consumer service quality

In 2010, RST initiated a customer satisfaction study according to the TRI*M methodology. According to the results of the study, TRI*M indexes made up 52 for business customers and 51 for private customers. In 2010, RST customer satisfaction ratios rose and reached an average of European electricity suppliers. Satisfaction of the biggest RST costumers exceeded expectations, the TRI*M index for this group of costumers reached 68 points.

In 2010, for the first time RST costumers were informed by email and SMS messages about tariff changes and planned electricity disconnections. Consumers had been offered a possibility to order a paybook by short phone number and at the self-service portal. Since the beginning of 2010 RST was successful in offering electronic invoices to the businesses, at the

end of the year 83% of business costumers used electronic invoices. RST also expanded functionality of self-service portal- business costumers had been offered a possibility to pay invoices online.
RST organized presentation for the biggest costumers about market liberalization and choice of independent supplier. RST also established a website in which provided information on independent suppliers.
At the end of the year RST costumers were offered direct debit service.

Social projects and initiatives

Informational campaign Use Only You Need

Considering the tendencies emerging in electricity consumption, during 2010, RST and Civic Responsibility Foundation continued an information campaign entitled Use Only You Need, which encourages rational use of electricity.

Social project Operation 2020

On May 2010, RST had launched a long-term public educative incentive Operation 2020 which was promoting a responsible behavior with electricity and decreasing negative effect and detrimental impact upon the enterprise and population that arise due to irresponsible or evil practice of use electricity and electricity network facilities. The aims of the incentive include: prevention of illegal electricity consumption, protection of all age groups electricity consumers by unfolding possible threats and remanding their duties. The main partner of RST in this project was the Association of Local Authorities in Lithuania.

Educational project ElektroMagija

Each year teenagers suffer from irresponsible behavior with electricity. In 2010, RST continued project aimed at informing children about the advantages of electric power and also its danger when safety measures are disregarded. RST launched a website informing about project (www.elektromagija.lt).

Promotion of electronic invoice

In 2010 RST encouraged companies to use electronic invoices by initiative Let Oaks Green across the Land of Lithuania. As a result of this initiative 80% of companies used ecologic electronic invoices, but some of the costumers had to visit costumer service offices to declare data on electricity consumtion, due to shoratage of computers or internet access.
In order to expand the level of small business computerization and internet dissemination RST and TEO LT donated computers and provided internet access.

Environment Protection

In its activities, RST followed the regulations of the Government of the Republic of Lithuania, the laws of Lithuania, EU directives and regulations, the laws of Ministries and the other normative acts, which regulates environmental protection.
When reconstructing transformer substations, old and worn-out power transformers are replaced with more silent ones. This considerably reduces the level of noise. Additional equipment for collecting insulating oil in transformer substations was installed.
The company continued its campaign for the preservation of stork nests. In 2010, 800 nests were raised by the RST specialists on utility poles.

3. INFORMATION ON THE ISSUER'S SECURITIES, THE AUTHORISED CAPITAL AND MEMBERS OF MANAGEMENT BODIES

Information on the issuer's securities

RST shares were included in the Secondary List of NASDAQ OMX Vilnius on 1 February 2002.

On 2 May 2007, the Company's shares were included in the Main List of NASDAQ OMX Vilnius. RST shares were not traded in other regulated markets.

The securities of the Company's subsidiaries were not traded publicly as they are private limited companies.

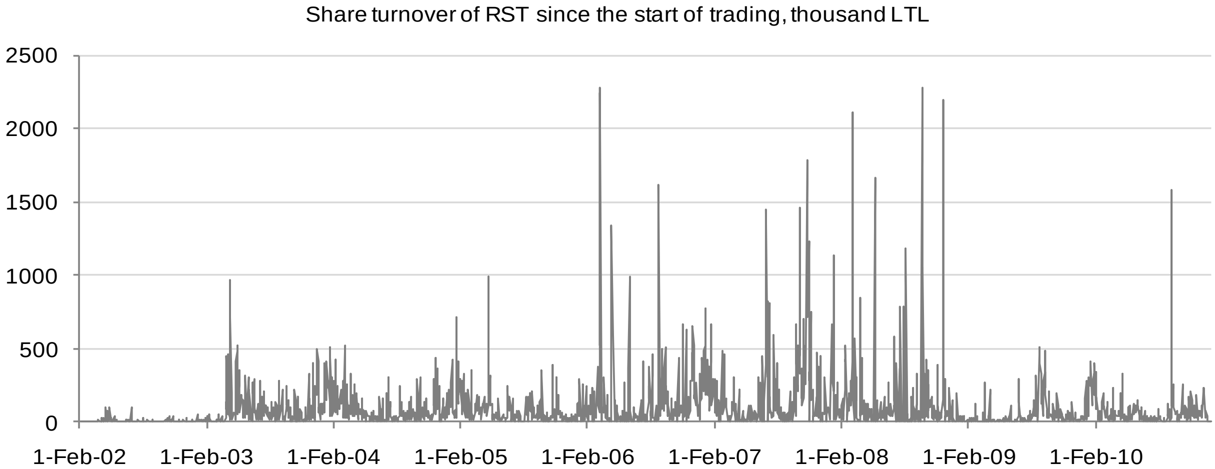
The authorised capital of RST has not changed over reporting period. It was comprised of 492 404 653 ordinary registered shares with a nominal value of LTL 1.

All the shares of the Company are registered for public trading. Trading in RST shares was suspended on 20 December 2010.

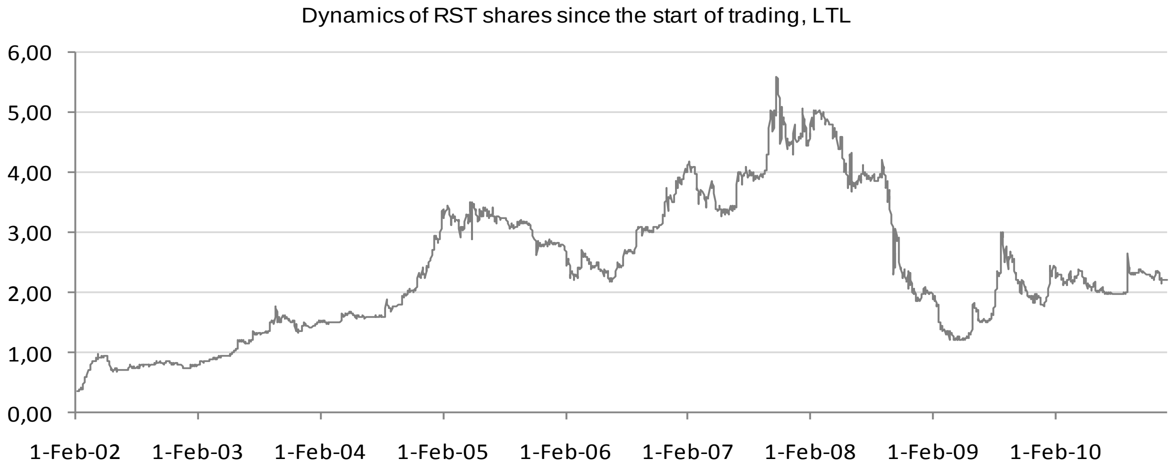
The Company had no own shares. Subsidiaries had no own shares or shares of the Company.

ISIN code of securities – LT0000126385.

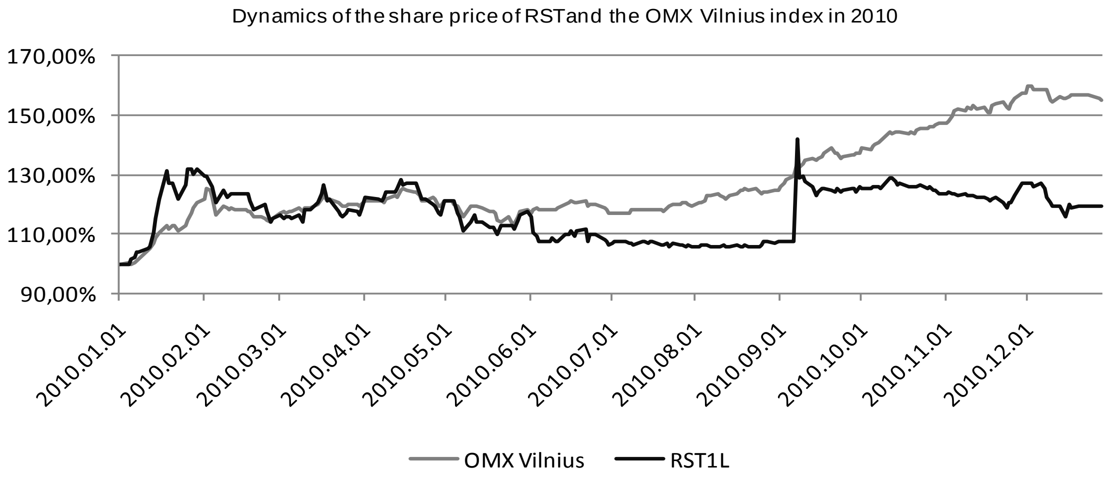
Abbreviation of securities – RST1L.



Since the start of trading in RST shares on the stock exchange market, the share price increased 6.1 fold, from LTL 0.36 (1 February 2002) to LTL 2.22 (20 December 2010). The highest share price ever (LTL 5.80) was recorded on 25 October, 2007. In 2010 highest price was recorded on 7 September and reached LTL 2.64.



In 2010 RST share price was growing constantly. Sharp increase of RST share price was recorded after publication of reorganization terms, but by the end of the year share price climbed down to the average price in 2010. The highest and the lowest share price recorded in 2010 were LTL 2.64 and LTL 1.86, respectively.



RST shares were included in the OMX Vilnius index and the OMX Baltic Benchmark. The OMX Baltic Benchmark index consists of the most traded stocks representing a certain economic sector. The Company represents the public utilities sector.

Information related to shares and dividends

	RST Group				
	2010	**2009**	**2008**	**2007**	**2006**
Number of shares	492 404 653	492 404 653	492 404 653	492 404 653	492 404 653
Net profit per share (LTL)	(0.01)	(0.08)	(0.17)	0.15	0.05
Highest share price (LTL)	2.64	3.14	5.13	5.80	3.86
Lowest share price (LTL)	1.86	1.15	1.85	3.20	2.17
Average share price (LTL)	2.19	1.82	3.61	4.23	2.71
Last share price (LTL)	2.22	1.83	1.99	4.60	3.75
Share turnover (LTL million)	20.97	11.90	37.48	45.55	36.80
Capitalisation (LTL million)	1 093.1	901.10	979.89	2 265.06	1 846.52
Dividends per share paid (LTL)	n.d.	0.199	-	-	0.07
PE ratio	-(222.00)	(22.88)	(11.7)	30.67	75.00
Dividends/net profit	n.d.	-26.33	-	-	1.54
Total dividends (LTL million)	n.d.	98.111	-	-	34.468

Information on agreements with intermediaries of public trading in securities

RST concluded an issuer services agreement with a consortium comprised of SEB Bank AB (company reg. No 112021238, Gedimino pr. 12, Vilnius) and law firm SORAINEN and partners (company reg. No 9400025, Jogailos str. 4, Vilnius), represented by the Financial Markets Department of SEB Bank AB. Under the agreement, the consortium undertook management of Company's securities account, provided dividend payment services and represented the Company in the Lithuanian securities market.

The issuer's contracts with financial brokerage companies and/or credit establishments providing investment services and/or conducting investment activities

RST did not conclude any contracts with financial brokerage companies and/or credit establishments providing investment services and/or conducting investment activities.

Authorised capital structure

Type of shares	Number of shares	Nominal value, LTL	Total nominal value, LTL	Percentage of authorised capital
Ordinary registered shares	492 404 653	1	492 404 653	100,00

Rights and obligations granted by the shares

All ordinary registered shares granted the same rights. Share owners were granted the right to participate in the management of the Company, unless otherwise provided by law, the right to receive dividends, the right to a portion of the Company's assets remaining after its liquidation, and other rights provided by law.

Shareholders

On 31 December 2010, the number of RST shareholders totaled 7 016. At the time of the last General Meeting of Shareholders on 13 December 2010, there were 6 875 shareholders.

Shareholders who owned more than 5 percent of the issuer's authorised capital as at 31 December 2010

Full names of the shareholders (names of companies, types, headquarter addresses, company register code)	Number of ordinary registered shares owned by shareholder	Percentage of authorised capital held	Percentage of votes carried by shares owned
Visagino atominė elektrinė, UAB Žvejų str.14, Vilnius, company reg. No. 301844044*	351 316 161	71,35	71,35
E.ON Ruhrgas International Gmbh, Huttropstrasse 60, Essen, Germany HRB No 10974	99 845 392	20,28	20,28

* On 4 June, 2010 Visagino atominė elektrinė, UAB acquired from the liquidating LEO LT, AB 351 316 161 ordinary registered shares of RST.

Shareholders having special rights of control and descriptions of their rights

None of the RST shareholders had any special rights of control. All the RST shareholders had the same (property and non-property) rights provided by the Law on Companies of the Republic of Lithuania and the RST Articles of Association.

Restrictions on voting rights

There were no restrictions on voting rights at the Group.

Mutual agreements among shareholders the issuer is aware of, which may be a reason for restricting the transfer of securities and/or voting rights

RST did not know any mutual agreements among shareholders which could be a reason for restricting the transfer of securities and/or voting rights.

Procedure for amending the Articles of Association

The General Meeting of Shareholders had the right to amend the Articles of Association of RST and its subsidiaries.

Mutual agreements among shareholders the issuer is aware of, which may be a reason for restricting the transfer of securities and/or voting rights

RST did not know any mutual agreements among shareholders which could be a reason for restricting the transfer of securities and/or voting rights.

Management bodies

RST management bodies include the General Meeting of Shareholders, the Board and the head of RST.

The management bodies of subsidiaries were the General Meeting of Shareholders, the Board and heads of the companies.

Board

Members of the RST Board were elected and recalled by the General Meeting of Shareholders. The Board consisted of 5 members.

Members of the Boards of subsidiaries were elected (and dismissed) by the General Meeting of Shareholders for a period of 4 years.

General Manager

The head of RST- General Manager- was appointed and dismissed by the RST Board. Since 30 April 2009, the Company had been headed by Arvydas Tarasevičius.

The powers of management bodies of RST and its subsidiaries and the procedure for appointing and dismissing them were specified in the Articles of Association of RST and its subsidiaries.

Members of management bodies and their share in the authorised capital of the issuer
2010-12-31

Name, surname	Office	Share in authorised capital held (%)	Number of votes (%)
Board			
Arvydas Darulis*	Chairman of the Board	-	-
Aloyzas Koryzna	Member	-	-
Arvydas Tarasevičius	Member	-	-
Mario Nullmeier	Member	-	-
Kęstutis Žilėnas**	Member	-	-
Head of the Company, Chief Financier			
Arvydas Tarasevičius	General Manager	-	-
Jurgita Tonkichienė***	Head of the Accounting Department	-	-

* Arvydas Darulis was elected on 23 July 2010 by the general Meeting of Shareholders.
** Kęstutis Žilėnas was elected on 21 May 2010 by the General meeting of Shareholders.
*** Since 1 October 2010 Jurgita Tonkichienė worked as head of the Accounting Department.

Information on participation in the activities of other companies and organisations; shareholdings and votes in other companies exceeding 5% of capital/votes
2010-12-31

Name, surname	Name of organisation, office	Percentage of other companies' capital and votes held
Board		
Arvydas Darulis	Chairman of the Board at LESTO Vice-Minister at Ministry of Energy of the Republic of Lithuania Member of the Board at Klaipėdos nafta, AB Chairman of the Board at Lietuvos elektrinė, AB Chairman of the Board at Lietuvos energija, AB Chairman of the Board at RST	-
Aloyzas Koryzna	General Manager and Memberof the board at Lietuvos energija, AB Member of the Board at LITGRID, UAB Member of the Board at Lietuvos elektrinė, AB Member of the Board at international association ENSTO–E Member of the Council at Lithuanian Electric Energy Association	-
Mario Nullmeier	Head of the Baltic office at E.ON Ruhrgas International (ERI) AG Member of the Supervisory Board at Eesti Gaas Member of the Board at Estonian - German Chamber of Commerce Member of the Supervisory Board at Latvijas Gas	-
Arvydas Tarasevičius	General Manager at LESTO Member of the Board at Lietuvos energija, AB General Manager and member of the Board at RST Member of the Council at Lithuanian Electric Energy Association Member of the Board at homestead cooperative Žemyna	-
Kęstutis Žilėnas	Head of electricity and heating department at Ministry of Energy of the Republic of Lithuania Member of the Board at LESTO Member of the Board at Klaipėdos nafta, AB Member of the Board at Lietuvos energija, AB Member of the Board at RST	-
Head of the Company, Chief Financier		
Arvydas Tarasevičius	Look for information above	-
Jurgita Tonkichienė	-	-

Biographical information on members of the Board

Arvydas Darulis

Position: Chairman of the Board

Education:

Dalhousie University, Baltic countries Economy management programme

Vilnius University, qualification of economist

Main occupation: Vice-Minister at Ministry of Energy of the Republic of Lithuania

Arvydas Tarasevičius

Position: Member of the Board

Education:

Vilnius University, Doctor of Social Science

Vilnius University, economist-mathematician

Main occupation: General Manager at RST

Aloyzas Koryzna

Position: Member of the Board

Education:

Moscow Institute of Energy, Doctor of Engineering degree

Kaunas Polytechnic Institute, electrical engineer

Kaunas Polytechnic Institute, profession of an engineer-electrician

Main occupation: General Manager at Lietuvos energija, AB

Kęstutis Žilėnas

Position: Member of the Board

Education:

Mykolas Riomeris University, Master of Law

Kaunas University of Technology, Computers systems and networks engineer.

Main occupation: Head of electricity and heating department at Ministry of Energy of the Republic of Lithuania

Mario Nullmeier

Position: Member of the Board

Education:

University of Toronto, Degree of global executive MBA.

Moscow Power Engineering Institute, Master's Degree, Nuclear physicist and engineer for heat and electricity generation.

Main occupation: Head of Representative Office for the Baltic States at E.ON Ruhrgas International, Gmbh

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

Information on transactions of associated parties is provided in clause 28 of the notes to the audited consolidated annual financial statements for 2010.

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

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

Information on compliance with Company Governance Code

Considering that Company was deregistered from the Register of Legal Entities on 31 December, 2010; report on compliance with the Governance Code of Companies Listed on NASDAQ OMX Vilnius is not included.

4. ANALYYSIS OF FINANCIAL RESULTS

In 2010, RST Group operating income reached LTL 1 267 million i.e. 7.6% more than in 2009 (LTL 1 177.5 million).

Over reporting period EBITDA of RST Group totaled LTL 226.3 million i.e. 22.3% less than in 2009 when EBITDA concluded LTL 291.2 million.

RST Group's net loss totaled LTL 6.5 million in 2010. In 2009 RST Group experienced net loss of LTL 25.9 million.

The main indicators of RST

Financial indicators	2010	2009	2008
Income (LTL thousand)	1 266 954	1 177 518	1 194 218
EBITDA margin	*17.9*	*24.7*	*21.2*
Operating profit(loss) (LTL thousand)	6 235	39 108	(82 640)
Operating profit margin	*0.5*	*3.3*	*-6.9*
Profit (loss) before tax (LTL thousand)	(5 958)	(36 707)	(89 158)
Profit (loss) before tax margin	*-0.5*	*-3.1*	*-7.5*
Net profit (loss) (LTL thousand)	(6 478)	(25 909)	(82 490)
Net profit margin	*-0.5*	*-2.2*	*-6.9*

Relative financial ratios	2010	2009	2008
Return on equity (ROE)	-0.3	-1.1	-3.4
Return on assets (ROA)	-0.2	-0.8	-2.4
Equity/assets ratio	0.74	0.74	0.71
Debt/equity ratio	0.36	0.35	0.41
Gross liquidity ratio	0.73	1.08	0.61

Operating indicators	2010	2009	Change, million kWh	Change, %
Amount of electricity distributed, million kWh	3 984.3	3 990.2	-5.8	-0.15
Amount of electricity sold, million kWh	2 960.5	3 998.1	-1 037.6	-25.95
Amount of electricity purchased, million kWh	4 381.0	4 351.1	29.9	0.69

RST Group EBITDA margin went down by 6.8 p.p. and reached 17.9% in 2010. The decrease in EBITDA margin was influenced by higher electricity purchase price and lower distribution price.

Following a slight increase in liabilities, the debt/equity ratio of RST Group rose from 0.35 to 0.36 in 2010. The RST Group's assets exceeded liabilities 2.8-fold at the end of reporting period.

In 2010 free cash flows generated by RST Group and liquid current assets decreased. As a result of this reduction, the gross liquidity ratio fell from 1.08 to 0.73 in 2010.

Income

In 2010, RST distributed to the customers 3 984.3 million kWh of electricity i.e. 0.15% more than in 2009. Consolidated income of RST Group concluded LTL 1 267 million (RST- LTL 1 259.9 million), LTL 89.4 million or 7.6% more than in 2009.

In 2010 income from electricity supply due electricity marker liberalization rose by74.7% and amounted to LTL 474.1 million.

Costs

In 2010 variable costs (purchase and transmission of electricity) made up LTL 873.1 million, went up by LTL 150.2 million or 20.8%. The growth of variable costs was determined by increase of electricity purchase price.

RST Group depreciation costs in 2010, compared with those in 2009, reduced by LTL 32.1 million and amounted to LTL 218.4 million.

Assets

Value of RST Group assets in 2010 decreased by 3.8% and amounted to LTL 2 976 million. More information on RST Group assets is presented in items 4 and 5 of the Explanatory Notes to the Audited Financial Statements of RST Group, AB for 2010.

Equity

The Group's consolidated equity decreased by 3.8% and made up LTL 2 194.2 million at the end of reporting period.

Liabilities

In 2010 RST Group financial liabilities decreased by LTL 37.3 million to LTL 143.1 million. More information on RST liabilities is presented in item 18 of the Explanatory Notes to the Audited Financial Statements of RST Group, AB for 2010.

5. RISKS AND RISKS MANAGEMENT

Political risk factors

The electricity distribution and supply activities are regulated by Law on Electricity of the Republic of Lithuania. Amendments to this law and other related legislation may have an impact on LESTO operation and results.
Governmental policy toward electricity prices is also important. Service prices are regulated, with the price caps set and controlled by the National Control Commission for Prices and Energy. Therefore, LESTO pricing is not sufficiently flexible. LESTO performance and results may depend upon such regulatory decisions.

Economic risk factors

Important risk factor is related to the market price of electricity generation/import, which has a direct effect on the cost of electricity. Public supply price is regulated and fixed irrespective of the electricity price prevailing in the market.
Since the beginning of 2010, liberalisation of the electricity market has started and customers have started actively using the opportunity to choose an independent supplier. As a result of this LESTO will experience loss of part of its income from supply operations.
LESTO income and profit from the electricity transmission and supply operations directly depend on the transmission/consumption volumes. Economic situation of the country has direct influence on electricity sales, trends in connections of new objects and costumer's solvency.
While operating and expanding distributive network LESTO purchase electricity equipment and components, which price depends on the trends of the market. LESTO investments and financial result depends on these market prices.

Technological risk factors

Distribution of electricity involves technological costs and commercial losses. Technological costs depend on the technical characteristics and optimum use of the distribution network. Commercial losses result from unsanctioned connection to the network as well as electricity thefts through illegal damage of electricity meters and metering system elements.
One of the key factors characterising the activities of the distribution network operator is the reliability of electricity distribution, which is evaluated according to the duration and number of customer disconnections. Unpredictable external factors such as natural disasters pose the risk that LESTO may fail to ensure reliable power supply to customers and to receive expected income, and that the elimination of respective malfunctions will entail additional operating expenses.
In order to enhance quality and reliability of the energy supply, LESTO earmarks the largest part of its investments for the reconstruction of distribution grids and transformer substations and for the installation of state-of-the-art equipment meeting the modern quality standards, and seeks technological solutions that would ensure continuous control over the condition of distribution networks, effective elimination of problems, and prevention of disruptions in the electricity supply.

Ecological risk factors

LESTO is an electricity supply and distribution company. As distinct from power generation plants, the levels of environmental pollution caused by it are low. The probability of imposition of restrictions on or suspension of the Issuer's operations is low.

Financial risk factors

Detailed information on financial risks and management thereof is presented in item 26 of the Explanatory Notes to the Audited Financial Statements of RST Group, AB for 2010.

Internal control system

On 3 March, 2011 shareholders of Visagino atominė elektrinė made the decisions to form an Audit Committee, approved regulating documents and defined that Audit Committee covers Visagino atominė elektrinė, UAB and it's directly and indirectly controlled companies, including LESTO. The main function of Audit Committee is to observe inner control, risk management and inner audit systems and their performance. Audit Committee also supervise the procedure of financial reporting and etc.
LESTO has an Internal Audit and Control Division established. The responsibility of this division includes systemic and through risk management and inner control, that help LESTO to achieve main goals.

8 April 2011

Arvydas Tarasevičius

LESTO AB
General Manager

Ramutė Ribinskienė
LESTO AB
Director of Finance and Administrative Division