Lithuanian Securities Commission
Konstitucijos ave. 23
LT-08105 Vilnius, Lithuania

2011-03-29

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 21 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we Arvydas Tarasevičius, AB LESTO General Manager and Ramutė Ribinskienė, AB LESTO Director of Finance and Administration Division, hereby confirm that, to the best of our knowledge, the attached audited VST, AB Financial statements for the year 2010, prepared in accordance with International Financial Reporting Standards, and gives a true and fair view of the assets, liabilities, financial position and profit or loss of VST, AB and the attached VST, AB Annual Report for the year 2010 includes a fair review of the development and performance of the business.

AB LESTO
Chief Executive Officer — Arvydas Tarasevičius

AB LESTO
Director of Finance and Administration Division — Ramutė Ribinskienė

Joint Stock Company VST

Financial statements for 2010 prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union
presented together with the annual report and independent auditors' report

CONTENTS

pwc

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 VST AB

Report on the financial statements

We have audited the accompanying financial statements of VST AB (the Company) set out on pages 5 – 28 which comprise the balance sheet as of 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

PricewaterhouseCoopers UAB, J. Jasinskio 16B, LT-01112 Vilnius, Lithuania
T: +370 (5) 239 2300, F:+370 (5) 239 2301, E-mail: vilnius@lt.pwc.com, www.pwc.com/lt

pwc

Basis for Qualified Opinion – scope limitation

According to the Company'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 assets. The Company's management has not reassessed fair values of property, plant and equipment with the carrying amounts of LTL 2,164 million as of 31 December 2010 (LTL 2,334 million 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 financial statements give a true and fair view of the financial position of the Company as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the Annual Report for the year ended 31 December 2010 set out on pages 29 - 45 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2010.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Director

Vilnius, Republic of Lithuania
29 March 2011

Rimvydas Jogėla
Auditor's Certificate No.000457

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

Statement of comprehensive income

	Notes	2010	2009 (Restated)
Sales revenue	4	1 156 394	1 138 427
Other operating income	5	4 632	3 998
		1 161 026	1 142 425
Purchases of electricity	6	(831 090)	(683 499)
Depreciation and amortisation	12, 13, 20	(230 624)	(268 552)
Wages and salaries and social security contributions		(78 934)	(72 452)
Repair and maintenance expenses	7	(15 216)	(13 817)
Spare parts and other inventories	14	(15 928)	(16 021)
Utilities and communication expenses		(5 379)	(6 758)
Revaluation of property, plant and equipment	12	(14 155)	(51 257)
Impairment and write-off of property, plant and equipment	12	(8 537)	(5 885)
Other operating expenses	8	(26 547)	(18 008)
		(1 226 410)	(1 136 249)
Operating profit		**(65 384)**	**6 176**
Finance income	9	2 495	4 530
Finance (costs)	9	(6 827)	(15 805)
Profit/(loss) before income tax		**(69 716)**	**(5 099)**
Income tax	23	13 092	17 218
Profit/(loss) for the year		**(56 624)**	**12 119**
Other comprehensive income/(expense):			
Gain (loss) on revaluation of property, plant and equipment	12, 13	(6 147)	(226 119)
Deferred income tax on asset revaluation	12, 23	922	45 224
Deferred income tax due to change in income tax rate	23	-	61 578
Other comprehensive income/(expense) for the year		**(5 225)**	**(119 317)**
Total comprehensive income/(expense) for the year		**(61 849)**	**(107 198)**
Basic and diluted earnings (deficit) per share (LTL)	11	(15.23)	3.26

The financial statements presented on pages 5 to 28 were approved by the General Director and the Director of the Finance and Administrative Department on 29 March 2011.

The notes on pages 9 to 28 form an integral part of these financial statements

LESTO

Arvydas Tarasevičius
General Director

(signature)

Ramutė Ribinskienė
Director of the Finance and Administrative Division

(signature)

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

BALANCE SHEET

	Notes	At 31 December 2010	2009 (Restated)
ASSETS			
Non-current assets			
Property, plant, and equipment	12	2 164 119	2 410 145
Prepayments for property, plant, equipment		1 385	-
Investments in associates	26	89 756	-
Available-for-sale financial assets	27	2 492	-
Intangible assets	13	54	80
Non-current receivables	15	7 579	14 022
		2 265 385	2 424 247
Current assets			
Inventories	14	10 201	9 424
Trade and other receivables	15	101 917	124 848
Prepayments and deferred charges and unbilled revenue	16	13 826	11 347
Cash and cash equivalents	17	62 177	74 927
		188 121	220 546
Total assets		**2 453 506**	**2 644 793**
EQUITY			
Share capital	18	111 540	111 540
Revaluation reserve	12, 32	917 237	1 046 820
Legal reserve	32	11 154	11 154
Retained earnings		404 864	344 937
Total equity		**1 444 795**	**1 514 451**
LIABILITIES			
Non-current liabilities			
Borrowings	19	129 367	386 148
Grants and subsidies	20	39 811	41 284
Employee benefit liability	21	800	1 185
Deferred income	22	176 150	184 719
Deferred income tax liability	23	198 170	228 682
		544 298	842 018
Current liabilities			
Borrowings	19	267 445	102 788
Trade and other financial liabilities	24	159 973	136 042
Other accounts payable	24	2 921	4 596
Advances received, accrued charges and deferred income	25	32 381	37 983
Income tax payable		1 693	6 915
		464 413	288 324
Total liabilities		**1 008 711**	**1 130 342**
Total equity and liabilities		**2 453 506**	**2 644 793**

The notes on pages 9 to 28 form an integral part of these financial statements

LESTO

Arvydas Tarasevičius
General Director

(signature)

Ramutė Ribinskienė
Director of the Finance and Administrative Division

(signature)

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

Statement of cash flows

	Notes	2010	2009 (Restated)
Cash flows from operating activities			
Profit (loss) for the year		(56 624)	12 119
Adjustments for non-cash items:			
- Income tax	23	(13 092)	(17 218)
- Depreciation and amortisation	12, 13	232 039	269 987
- Depreciation of property, plant and equipment received at no consideration	20	(1 415)	(1 435)
- Recognition of income from the connection of new customers	4	(21 251)	(17 370)
- Unbilled revenue from electricity sales and overdeclared revenue	16	2 607	758
- Loss/(gain) on sale of property, plant and equipment		605	(125)
- Write-offs and impairment/(reversal of impairment) of property, plant an equipment and intangible assets, revaluation effect	12, 13	22 694	57 142
- Impairment/(reversal) of impairment of receivables and prepayments	8, 15	2 313	2 741
- Inventories surplus and (reversal) of inventory impairment	14	313	(128)
- Accrued wages, salaries and social security expenses and other accruals	25	133	14 358
- Interest (income)	9	(2 495)	(4 530)
- Interest expense	9	6 768	15 765
- Other (income)		-	(152)
		172 595	**331 912**
Changes in working capital:			
- (Increase) decrease in inventories		(1 551)	1 896
- (Increase) decrease in receivables, prepayments and deferred charges		4 110	544
- Increase in deferred income		12 388	21 758
- Increase (decrease) in payables, other financial liabilities, advances received and accrued charges		(4 803)	(4 621)
Cash generated from operations		182 739	351 489
Income tax (paid)		(21 720)	(41 250)
Net cash generated from operating activities		**161 019**	**310 239**
Cash flows from investing activities			
(Purchases) of property, plant and equipment		(86 501)	(94 597)
(Purchases) of intangible assets	13	-	(105)
Proceeds from sale of property, plant and equipment		1 203	1 525
Purchases of available-for-sale financial assets	27	(400)	-
Grants received		402	345
Loans granted		-	(48 000)
Loan repayments received		8 000	17 000
Interest received		2 495	4 530
Net cash used in investing activities		**(74 801)**	**(119 302)**
Cash flows from financing activities			
(Repayments) of borrowings		(102 788)	(105 870)
Interest (paid)		(6 773)	(16 242)
Dividends (paid)		(71)	(130)
Net cash used in financing activities		**(109 632)**	**(122 242)**
Net (decrease)/increase in cash and cash equivalents		**(23 414)**	**68 695**
Cash and cash equivalents at beginning of year	17	74 927	6 232
Cash, cash equivalents at end of year	17	**51 513**	**74 927**

The notes on pages 9 to 28 form an integral part of these financial statements

LESTO

Arvydas Tarasevičius
General Director

(signature)

Ramutė Ribinskienė
Director of the Finance and Administrative Division

(signature)

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

Statement of changes in equity

	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total
Balance at 1 January 2009		**111 540**	**1 319 030**	**11 154**	**179 925**	**1 621 649**
Total comprehensive income (restated)		-	(119 317)	-	12 119	(107 198)
Transfer from revaluation reserve to retained earnings (depreciation and write-offs), gross	12	-	(191 117)	-	191 117	-
Transfer from revaluation reserve to retained earnings (depreciation and write-offs), deferred income tax	12	-	38 224	-	(38 224)	-
Total		-	(272 210)	-	165 012	(107 198)
Balance at 31 December 2009 (restated)		**111 540**	**1 046 820**	**11 154**	**344 937**	**1 514 451**
Balance as at 1 January 2010 (restated)		**111 540**	**1 046 820**	**11 154**	**344 937**	**1 514 451**
Total comprehensive income		-	(5 225)	-	(56 624)	(61 849)
Transfer from revaluation reserve to retained earnings (depreciation, disposals and write-offs), gross	12	-	(146 304)	-	146 304	-
Transfer from revaluation reserve to retained earnings (depreciation, disposals and write-offs), deferred income tax	12	-	21 946	-	(21 946)	-
Total		-	(129 583)	-	67 734	(61 849)
Transactions with owners						
Dividends relating to 2009	10	-	-	-	(7 807)	(7 807)
Balance at 31 December 2010		**111 540**	**917 237**	**11 154**	**404 864**	**1 444 795**

The notes on pages 9 to 28 form an integral part of these financial statements

LESTO

Arvydas Tarasevičius
General Director

(signature)

Ramutė Ribinskienė
Director of the Finance
and Administrative Division

(signature)

Notes to the financial statements

1 General information

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

The financial statements cover the separate Company's financial statements as of 31 December 2010.

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

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

Shareholder	Number of shares	(%)
LEO LT, AB	3 651 534	98,21
Other shareholders	66 464	1,79
	3 717 998	100,00

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

Shareholder	Number of shares	(%)
Visagino Atominė Elektrinė UAB	3 651 534	98,21
Other shareholders	66 464	1,79
	3 717 998	100,00

During implementation of the energy sector reorganisation plan (which has been approved by the Lithuanian Government) and seeking to implement the provisions of the Third Energy Package of the European Union, on 4 June LEO LT, AB in liquduidation contributed all of its shares in VST AB and mostof its shares of Lietuvos Energija AB and on 5 June 2010 all of its shares in Rytų Skirstomieji Tinklai AB to the authorised share capital of Visagino Atominė Elektrinė UAB. The Government also contributed shares of Lietuvos Elektrinė AB. These actions have been early approved by the Governmental Commission for the Consistency of Potential Members of Strategic or Significant Importance to National Security with Interests of National Security. Changes in the capital structure will enable the shareholder - the State of Lithuania - to continue implementing measures set forth in the energy sector reorganisation plan in an efficient and effective manner.

On 4 January 2010, an extraordinary general meeting of the shareholders of VST AB was convened where it was decided to reorganise Rytų Skirstomieji Tinklai AB 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 VST AB and Rytų Skirstomieji Tinklai AB will be merged to form a new company over which control will be retained by the Lithuanian Government.

The draft terms 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. The terms and conditions of reorganisation were approved at the general shareholder meetings held on 19 November 2010.

On 13 December 2010, an extraordinary general meeting of shareholders was convened where it was decided to reorganise Rytų Skirstomieji Tinklai AB and VST AB by way of merger by establishing LESTO AB. On 31 December 2010, VST AB was removed from the Register of Legal Entities. Licensed activities of electricity transmission and public supply conducted by VST AB 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.

Under the terms and conditions of reorganisation approved by the decision of the extraordinary general meeting of shareholders of VST AB 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 VST AB. The moment of the take-over of assets, rights and obligations of VST AB is 1 January 2011, 00:00 am.

During the implementation of the energy sector reorganisation plan, the activities and functions of VST were separated and assigned to specialised companies. A newly established company Technologijų ir Inovacijų Centras UAB became the centre for the development of knowledge and competencies essential to the power sector. An agreement for the acquisition of shares was signed with this company on 13 October 2010. Purchase consideration for the shares acquired comprised a monetary contribution of LTL 40 000 and in-kind contribution of LTL 2 091 999. As a result, VST AB acquired 5 per cent of the ordinary registered shares in the newly established company (see Note 27).

Kruonio Investicijos UAB (the name was changed to NT Valdos UAB) became the manager of immovable and movable property of the power sector which is not related to operating activities of the companies. The objective is to ensure more effective use of the state-owned assets. On 21 October 2010, the agreement for the acquisition of shares was signed between the Company and Kruonio Investicijos UAB. As a result of this transaction the Company acquired 29 per cent of ordinary registered shares in Kruonio Investicijos UAB by making an in-kind contribution to the value of LTL 89 756 525. From that date this company became the associate entity of the Company. The results of operations of this company for the period from November through to December 2010 are not material for the Company's financial statements, therefore the result of the associate for the two-month period will not be reported or disclosed in the financial statements (see Note 26).

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

The main activity of the Company is distribution and supply of electricity in Western Lithuania.

The activities of the Company are regulated by the Law on Electricity of the Republic of Lithuania.

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 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 customers and by an average of 7 ct/kWh (excl. VAT) for industrial and commercial customers. Prices are announced by the Commission in the manner prescribed by the legislative acts.

On 26 November 2010, the Commission approved the final prices of electricity for 2011 and tariff plans applicable to customers of Rytų Skirstomieji Tinklai AB and VST AB. From 2011 prices of electricity for residential users will remain unchanged and from April 2011 residential users will be able to choose additional payment plans *Namai* and *Namai Plius* .

In 2010, the following caps on public power tariffs were set:

- for users that receive power from networks with voltage below 110 kV but not lower than 6kV – 29,27 ct/kWh;

- for users that receive power from 0.4 kV voltage networks – 36,01 ct/kWh.

In 2009, the following caps on public power tariffs were set:

- for users that receive power from networks with voltage below 110 kV but not lower than 6kV – 28,10 ct/kWh;
- for users that receive power from 0.4 kV voltage networks – 38,33 ct/kWh.

The increase in expenses related to the purchase of electricity in 2010 was caused by the increase in purchase prices of electricity by 9 ct/kWh following the closedown of the Ignalina Nuclear Power Plant.

In 2010, the Company's average number of employees was 1 830 (2009: 1 846).

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

2.1 Basis of preparation

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

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

Statement of compliance

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 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 made retrospective adjustment to income received from new customer connection fees from 1 July 2009. In the balance sheet as at 31 December 2009, this change in accounting policy adopted in 2010 caused a reduction of deferred income by LTL 8 855 thousand (Note 22), an increase of deferred income tax liability by LTL 39 thousand, an increase of income tax payable of LTL 1 328 thousand and an increase of retained earnings by LTL 7 488 thousand. In the statement of comprehensive income for the year ended 31 December 2009 sales revenue and income tax expenses increased by LTL 8 855 thousand and LTL 1 367 thousand, respectively. Due to the change in accounting policy basic and diluted earnings per share increased by LTL 2.01. Change in accounting policies had no impact on the balance sheet as of 31 December 2008.

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

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).

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

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

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

Improvements to IFRSs (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 1 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 Company's accounting periods beginning on or after 1 January 2011 and which the Company has 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; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

The Company decided to apply this standard from the financial period started from 1 January 2010. The standard was applied retrospectively. The amended standard does not require to disclose transactions and balances arising from the transactions, including off-balance sheet liabilities, conducted with the government or government-related entities. The early adoption of the standard did not have a material affect on 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 Company's accounting periods beginning on or after 1 January 2011 and which the Company has not early adopted.

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

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

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

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

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

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

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

2.2 Foreign currency translation

a) Functional and presentation currency

The Company records all amounts in the litas and the amounts in these financial statements are also presented in the national currency of the Republic of Lithuania, the litas (LTL), 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 foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

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 the Board of Directors that makes strategic decisions.

The Company has 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 Investments in 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 measured at cost in the stand-alone financial statements.

As the Company does not hold investments in subsidiaries, but holds investments in associates, it does not prepare consolidated financial statements, but prepares financial statements in which investments in associates are accounted for by the equity method and are initially recognised at cost. The Company's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Company'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 Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has assumed obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associate are eliminated to the extent of the Company'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 Company.

As at 31 December 2010 the Company's stand-alone financial statements are not significantly different from the financial statements in which investments in associates are accounted under equity method.

2.5 Revenue recognition

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

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.

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

b) Customers' connection fees

Until 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, initially are 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 fixed assets and other costs, are capitalised and depreciated over the estimated useful lives of the capitalised assets.

After 1 July 2009, connection fees received from customers are recognised as income upon the connection of the customer.

c) 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.

d) Other income

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from the rendering of services is recognised on accrual basis, the period of service provision usually ends upon the signing of transfer-acceptance act. The Company does not operate under long term service rendering contracts.

2.6 Income tax

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

The current year income tax charge is based on taxable pre-tax profit for the year as modified by the items of income or expenses that are not subject to tax or deductable Tax rates used to compute income tax expense are those applicable as of the date of the financial statements. In 2009, income tax at a rate of 20 per cent was applicable in Lithuania. As from 1 January 2010 income tax rate is 15 per cent.

2.7 Basic and diluted earnings per share

Basic earning per share is calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. 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.

2.8 Property, plant, and equipment

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

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

All other property, plant and equipment are shown at revalued amounts, based on periodic (at least every 5 years) valuations by external independent appraisers or by the Company's management, 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 revalued 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 revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the cost of each asset to their residual value over their estimated useful lives, as follows:

- Buildings	10 - 80 years
Including:	
35 - 110 kV transformer substation buildings	35 years
10 kV distribution point buildings	35 years
10/0.4 kV transformer buildings	50 years
Connection and control system buildings	25 years
- Structures and machinery	5 - 50 years
Including:	
35 - 110 kV transformer substations (except buildings)	25 - 40 years
10 kV distribution points (except buildings)	35 years
10/0.4 kV power transformers	35 years
35 kV power lines	40 years
0.4 - 10 kV electricity network	30 - 40 years
10/0.4 kV transformers (except buildings)	30 years
Connection and control systems (except buildings)	10 - 40 years
- Vehicles	4 - 15 years
- Other tangible assets	3 - 10 years

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part 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.

Property, plant and equipment received on gratuitous basis is carried at fair value under the respective items of property, plant and equipment and deferred income. Property, plant and equipment received on gratuitous basis is depreciated on a straight-line basis over the useful life of assets concerned. Amounts recorded under the item of deferred income are recognised as income in the statement of comprehensive income over the useful life of the related property, plant and equipment and depreciation expenses of the related property, plant and equipment are reduced by this amount in the statement of comprehensive income.

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.

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 revalued 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.

2.9 Intangible assets

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

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

2.10 Impairment of non-financial assets

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

2.11 Accounting for leases

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.

a) Company as a lessee

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

b) Company as a lessor

Lease is an arrangement between the lessor and the lessee according to which the lessor conveys the right to the lessee to use the assets for a certain period of time in exchange for an agreed payment or several payments. Assets leased out under operating leases are included in property, plant and equipment in the balance sheet of the lessor. Payments received under operating leases (net of any incentives given to the lessee) are credited to the statement of comprehensive income on a straight-line basis over the period of the lease.

2.12 Grants

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

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

2.13 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventories comprises purchase price, transportation, other costs directly attributable to the cost of inventories and taxes other than those subsequently recoverable by the Company from the state authorities. Net realisable value is the estimated selling price in the ordinary course of business, less the applicable selling expenses.

2.14 Cash and cash equivalents

Cash includes cash on hand and cash in bank accounts. Cash equivalents represent short-term highly liquid investments easily convertible to a known amount of cash. The original term of such investments does not exceed three months and the risk of changes in value is very insignificant.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits in current bank account, other short-term highly liquid investments and overdrafts.

2.15 Share capital

Ordinary shares are stated at their par value.

2.16 Reserves

Revaluation reserve

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

2.17 Dividends

Dividends are recorded in the financial statements at the moment when they are approved by the annual general shareholders' meeting.

2.18 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.

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.

2.19 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 Company to realise all or part of deferred tax assets. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled.

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

Income tax and deferred 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.

2.20 Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables, and available-for-sale financial assets. 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 and subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in statement of comprehensive income when loans and receivables are derecognised or impaired, as well as through the amortisation process.

Receivables are carried at original invoice amount less provision established for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that 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 witten 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.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment or investment matures within 12 months of the end of the reporting period.

Available-for-sale financial assets are recognised initially at fair value plus transaction costs and subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income.

Upon the disposal or impairment of available-for-sale investments, the accumulated fair value adjustment recognised in equity is included in profit or loss in the statement of comprehensive income.

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

The Company assesses at the end of each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is an evidence that the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of comprehensive income.

2.21 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired;
- the Company has retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; and
- the Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset

Financial liabilities

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

2.22 Offsetting and comparatives

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

2.23 Employee benefits

a) Social security contributions

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

b) Termination benefits

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

c) Employee benefit liability

Pension liability represents calculated amounts to be paid according to Lithuanian legislation. Each employee is entitled to 2 months salary payment when leaving the job at or after the start of pension period. The defined benefit obligation as of balance sheet date as well as the costs of providing such benefits are based on actuarial calculations applying the projected credit unit method. The discount rate applied reflects the rates set for governmental bonds with a duration similar to the expected benefit payments.

2.24 Contingencies

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

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

2.25 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.

3 Critical accounting estimates and judgements used in the preparation of the financial statements

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

a) 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 paid yet by the residential customers is estimated and accrued by the Company's management. The Company's management has estimated that most of the residential customers declare and pay for the electricity usage on approx. the 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 16).

b) 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 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.

c) Deferral of customer connection fees

Until 1 July 2009, the Company defered 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 Company for the purposes of connecting new customers. The Company is the only electric power provider to users in Western 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 Company upon customer connection is used as the best estimate of the period over which connection fees paid by customers are recognised as income. For further details, see Note 22.

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 Company 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 15.

e) Revaluation and impairment of property, plant and equipment

The Company designates 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 independent valuers as required by International Valuation and Accounting Standards. It is probable that such valuation would have a negative effect on the results of the Company' 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 independent valuers, 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 Company could not be accurately estimated. In 2010 a significant reorganisation in the whole energy sector took place and the Company was merged with Rytu Skirstomieji Tinklai AB as from the beginning of 2011. Therefore based on the decision of management, valuation of property, plant and equipment was not performed by independent valuers as at 31 December 2010 either. For more information see 12 note.

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 Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

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

4 Sales revenue

	2010	2009 (Restated)
Sales and distribution of electricity	1 135 143	1 121 057
Customers' connection fees (Note 22)	21 251	17 370
	1 156 394	**1 138 427**

In 2010, 2 833 million kWh of electricity (2009: 3 757 million kWh) were sold.

In 2010 and 2009, the Company had one operating segment. All the Company's assets are located in Lithuania. All sale transactions are conducted in Lithuania.

5 Other operating income

	2010	2009
Income from installation works	428	681
Income from sales of materials	1 622	509
Gain on disposal of property, plant and equipment	-	125
Rental income	486	521
Other income	1 257	1 280
Fines and interest on late payment received	839	882
	4 632	**3 998**

6 Purchase of electricity

Purchases of electricity expenses represent purchases of electricity from Litgrid UAB, Lietuvos Energija AB (see note 31) and other electricity producers (2009: Ignalina Nuclear Power Plant, Lietuvos Energija AB). There is an increase in purchase expenses of electricity as compared to prior year. The increase is mainly related to higher average electricity purchase price and higher average rates for transmssion to the Company's network.

7 Repair and maintenance expenses

Repair and maintenance expenses mainly comprise maintenance works purchased from service providers.

8 Other operating expenses

	2010	2009
Fuel	3 324	3 614
Expenses associated with cash collection	2 730	2 759
Impairment and write-off of receivables and prepayments (Note 15)	2 313	2 741
Taxes other than income tax	1 974	2 149
IT expenses	2 740	1 011
Inventory impairment loss (reversal of impairment loss) (Note14)	313	(128)
Expenses of lease of premises (operating lease)	1 687	-
Car lease expenses (operating lease)	3 026	-
Other expenses	8 440	5 862
	26 547	**18 008**

9 Finance income/(costs), net

	2010	2009
Interest income	2 495	4 530
Total finance income	2 495	4 530
Interest (expenses)	(6 768)	(15 765)
Foreign currency exchange (loss)	-	(1)
Other (costs)	(59)	(39)
Total finance (costs)	(6 827)	(15 805)
Finance income/(costs), net	**(4 332)**	**(11 275)**

10 Dividends

	2010*	2009
Dividends declared	7 807	-
Weighted average number of shares (thousands)	3 718	-
Declared dividends per share (expressed in LTL per share)	2.10	-

* The year when dividends were declared

Dividends relating to 2009 of LTL 2.10 per share and for the total amount of LTL 7 807 thousand were approved at the annual general meeting of shareholders held on 30 April 2010. A major portion of dividends amounting to LTL 7 668 thousand was offset against the loan to be repaid to the shareholder LEO LT, AB (Note 30).

11 Basic and diluted earnings per share

	2010	2009 (Restated)
Net profit (loss) attributable to shareholders	(56 624)	12 119
Weighted average number of ordinary registered shares in issue (thousands) (Note 18)	3 718	3 718
Basic earnings (deficit) per share (expressed in LTL per share)	(15.23)	3.26

The Company has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as basic earnings per share.

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

12 Property, plant, and equipment

	Land and buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construct-ion in progress	Total
At 31 December 2008						
Cost or revaluated amount	384 743	2 493 610	34 383	48 679	38 807	3 000 222
Accumulated depreciation	-	(141 210)	(3 698)	(5 466)	-	(150 374)
Accumulated impairment	-	-	-	-	(321)	(321)
Net book amount	384 743	2 352 400	30 685	43 213	38 486	2 849 527
Year ended 31 December 2009						
Opening net book amount	384 743	2 352 400	30 685	43 213	38 486	2 849 527
Additions	-	2 088	13 221	5 867	93 967	115 143
Disposals	(1118)	(198)	(86)	-	-	(1 402)
Write-offs	(104)	(5 566)	(5)	(13)	(275)	(5 963)
Revaluation	(66534)	(207202)	-	(3640)	-	(277 376)
Impairment	-	-	-	-	80	80
Reclassifications between groups	917	96 253	-	498	(97 668)	-
Depreciation charge	(16 474)	(238 060)	(6 924)	(8 406)	-	(269 864)
Closing net book amount	301 430	1 999 715	36 891	37 519	34 590	2 410 145
At 31 December 2009						
Cost or revaluated amount	301 430	2 011 019	47 183	40 165	34 832	2 434 629
Accumulated depreciation	-	(11 304)	(10 292)	(2 646)	-	(24 242)
Accumulated impairment	-	-	-	-	(242)	(242)
Net book amount	301 430	1 999 715	36 891	37 519	34 590	2 410 145
Year ended 31 December 2010						
Opening net book amount	301 430	1 999 715	36 891	37 519	34 590	2 410 145
Additions	562	3 788	7	3 740	99 926	108 023
Disposals	(1182)	(154)	(446)	(26)	-	(1 808)
Write-offs	(174)	(7 967)	(109)	(70)	(432)	(8 752)
In-kind contribution to associate and acquisition of financial assets held for sale (Notes26, 27)	(50443)	(5 982)	(31807)	(2827)	-	(91 059)
Revaluation	(24103)	1 158	2 451	119	-	(20 375)
Impairment	-	-	-	-	215	215
Reclassifications between groups	4 904	99 049	-	169	(104 122)	-
Reclassified to intangible assets (Note 13)	-	-	-	-	(297)	(297)
Depreciation charge	(13 632)	(205 021)	(6 713)	(6 607)		(231 973)
Closing net book amount	217 362	1 884 586	274	32 017	29 880	2 164 119
At 31 December 2010						
Cost or revaluated amount	229 672	2 100 876	488	39 073	29 907	2 400 016
Accumulated depreciation	(12 310)	(216 290)	(214)	(7 056)	-	(235 870)
Accumulated impairment	-	-	-	-	(27)	(27)
Net book amount	217 362	1 884 586	274	32 017	29 880	2 164 119

Revaluation of property, plant and equipment in 2009

On 31 December 2009, the Company's property, plant and equipment (except for certain buildings, construction in progress, vehicles and quickly depreciated assets such as computers) was revalued using the indexes of construction price as announced by the Statistics Department under the Government of the Republic of Lithuania for 11 months to 30 November 2009. Impairment rate of 12.27 per cent was applied for buildings and constructions and impairment rate of 9.68 per cent was applied for the rest of the assets that historically were revalued based on the depreciated replacement costs basis.

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

	Land and buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Total
Decrease in carrying amount	(31 373)	(207 157)	-	(2 855)	(241 385)
	(31 373)	(207 157)	-	(2 855)	(241 385)

Decrease in the carrying amount arising on the revaluation amounting to LTL 241 385 thousand was recognised as a reduction of LTL 203 231 thousand charged to the revaluation reserve and as an impairment expense of LTL 38 154 thousand charged to the statement of comprehensive income.

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

	Land and buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Total
Decrease in carrying amount	(35 161)	(45)	-	(786)	(35 992)
	(35 161)	(45)	-	(786)	(35 992)

Decrease in the carrying amount arising on the revaluation amounting to LTL 35 992 thousand was recognised as a reduction of LTL 22 888 thousand charged to the revaluation reserve and as an impairment expenses of LTL 13 103 thousand charged to the statement of comprehensive income.

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

The summary of revaluation deficit movement 2009 is presented below:

	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation deficit
Assets previously carried at depreciated replacement cost	203 231	38 154	241 385
Assets previously carried at market value	22 888	13 103	35 991
	226 119	**51 257**	**277 376**

Revaluation of property, plant and equipment in 2010

In 2010, prior to making in-kind contributions to authorised share capitals of Technologijų ir Inovacijų Centras UAB and Kruonio Investicijos UAB fair values of assets to be transferred to these companies were established. Fair values of assets were established by independent property valuer Resolution Valuations UAB (company code: 126212869) holding respective qualification certificates. All assets were transferred at fair value established by independent property valuers. As a result of the revaluation of assets to their fair values a reduction of LTL 6 147 thousand was charged against the revaluation reserve. The change in the reserve was shown in the statement of changes in equity. Impairment expenses that arose from the revaluation amounting to LTL 14 155 thousand were charged to the statement of comprehensive income.

Other property, plant and equipment was not revalued in 2010. The management believes that the carrying amount of these items of property, plant and equipment as at 31 December 2010 is not materially different from their fair value.

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

	Land and buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Total
At 31 December 2009	233 099	1 047 749	38 344	34 749	1 353 941
At 31 December 2010	121 369	1 055 330	652	29 755	1 207 106

Revaluation reserve

	Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 31 December 2008	**1 648 788**	**(329 758)**	**1 319 030**
Gains (losses) on revaluation of property, plant and equipment during the year	(226 119)	45 224	(180 895)
Transfer from revaluation reserve to retained earnings during the year (depreciation and write-offs)	(191 117)	38 224	(152 893)
Change in estimation of deferred tax due to the change in tax rate	-	61 578	61 578
Balance at 31 December 2009	**1 231 552**	**(184 732)**	**1 046 820**
Gains (losses) on revaluation of property, plant and equipment during the year	(6 147)	922	(5 225)
Transfer from revaluation reserve to retained earnings during the year (depreciation, disposals and write-offs)	(128 545)	19 282	(109 263)
Transfer from revaluation reserve to retained earnings during the year (assets disposed in exchange for shares)	(17 759)	2 664	(15 095)
Balance at 31 December 2010	**1 079 101**	**(161 864)**	**917 237**

13 Intangible assets

	Computer software
Year ended 31 December 2009	
Opening net book amount	98
Additions	105
Amortisation charge	(123)
Closing net book amount	80
At 31 December 2009	
Cost	8170
Accumulated amortisation	(8 090)
Net book amount	80
Year ended 31 December 2010	
Opening net book amount	80
Reclassified from property, plant and equipment (Note 12)	297
Revaluation (recognised in other comprehensive income)	73
In-kind contribution (acquisition of financial assets held for sale) (Notes27)	(328)
Write-offs	(2)
Amortisation charge	(66)
Closing net book amount	54
At 31 December 2010	
Cost	267
Accumulated amortisation	(213)
Net book amount	54

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

14 Inventories

	Year ended 31 December	
	2010	**2009**
Materials and spare parts (at cost)	10 600	10 425
Electricity meters (at cost)	2 851	1 936
	13 451	12 361
Impairment of inventories	(3 250)	(2 937)
	10 201	**9 424**

The Company reviewed slow moving inventories in 2010 and updated the impairment allowance for inventories, accordingly. Additional estimated impairment of inventories in the amount of LTL 313 thousand (2009: increase of LTL 128 thousand) was included in other operating expenses in the statement of comprehensive income (Note 8).

The amount of consumed inventories recognised as expenses is LTL 15 928 thousand for the year 2010 (LTL 16 021 thousand for the year 2009) and is accounted under spare parts and other inventories in the statement of comprehensive income.

15 Non-current receivables, trade receivables and other receivables

	Year ended 31 December	
	2010	**2009**
Non-current receivables		
Non-current receivables	7 579	14 022
	7 579	14 022
Current trade and other receivables		
Trade receivables	96 630	108 334
Loans granted to related parties (Note 31)	13 980	31 000
Other receivables	12 342	5 837
Trade and other receivables, gross	122 952	145 171
Provision for impairment of trade receivables	(20 292)	(19 677)
Provision for impairment of other receivables	(743)	(646)
	(21 035)	(20 323)
	101 917	124 848
	109 496	**138 870**

Impairment of trade receivables for electricity amounted to LTL 3 411 thousand in 2010 (2009: LTL 2 741 thousand), reversal of impairment amounted to LTL 575 thousand (2009: 0), bad debts written off amounted to LTL 2 221 thousand (2009: LTL 5 520 thousand).

Trade receivables are non-interest bearing and are normally settled with the term of 30 to 90 days.

A loan of LTL 13 980 granted to related parties represents a loan to Visagino Atominė Elektrinė UAB (hereinafter "VAE") that was transferred from LEO LT, AB (agreement dated 12 July 2010) (2009: a loan of LTL 31 000 thousand represent a loan granted to LEO LT, AB). The outstanding balance of the loan at the date of transfer of the agreement was LTL 15 332 thousand. On 8 November 2010, the sale-purchase agreement for immovable and movable property was signed with VAE. According to this agreement the Company acquired assets for a consideration of LTL 1 352 thousand. With this transaction the offset was effected against the loan payable. After the mentioned offset the amount owed by VAE to the Company is LTL 13 980 thousand. Under the new agreement starting from 1 June 2010 the interest rate payable on the loan granted is calculated as one-month VILIBOR interest rate prevailing at the repricing date or at the preceding working date provided that the repricing day is not a working day announced in the information base of the Bank of Lithuania plus 1.2 per cent margin (2009: VILIBOR plus 0.75 per cent margin).

Trade receivables with the nominal value of LTL 12 389 thousand as at 31 December 2010 (31 December 2009: LTL 12 316 thousand) were fully provided for. Receivables fully provided for includes as follows: receivables from customers placed under the bankruptcy status; debts under claims filed according to unawarded Acts on the inspection of electricity consumption location; receivables past due for more than one year; certain receivables from individuals and companies past due for more than 3 months.

Receivables from users are assessed both individually and collectively at the end of each reporting period. In respect of individually assessed receivables from industrial customers, each amount receivable is assessed as well as its recoverability in view of all factors that could impact impairment of the receivable. Collectively assessed consumers are grouped to several categories in respect of which different impairment rates are applied. Impairment rates are determined based on a percentage portion of the receivable which becomes past due more than one year after the end of the calendar year or observable data or past experience providing evidence for the impairment of cash flows from future amounts receivable depending on the past due period of the receivable.

Movements in the provision for impairment of trade and other receivables were as follows:

Balance at 31 December 2008	23 102
Impairment charge for the year	2 741
Written off	(5 520)
Balance at 31 December 2009	20 323
Impairment charge for the year	2 882
Reversal of impairment charge	(569)
Written off	(1 601)
Balance at 31 December 2010	21 035

As at 31 December 2010, there was no provision for impairmentv established for individually assessed trade and other receivables (LTL 8 622 thousand as at 31 December 2009).

Trade and other receivables are written off when they are considered uncollectible by the management.

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

The ageing analysis of trade receivables as at 31 December 2010 and 31 December 2009 is as follows:

		Trade receivables past due but not impaired					
	Not past due	**Less than 30 days**	**30 - 60 days**	**60 - 90 days**	**90 - 120 days**	**More than 120 days**	**Total**
2010							
Not impaired	67 367						67 367
Past due but not impaired		3 925	452	259	99	86	4 821
Impaired	2 407	1 304	644	469	408	19 210	24 442
Total							**96 630**
Less: impairment provision							**(20 292)**
Total							**76 338**

		Trade receivables past due but not impaired					
	Not past due	**Less than 30 days**	**30 - 60 days**	**60 - 90 days**	**90 - 120 days**	**More than 120 days**	**Total**
2009							
Not impaired	77 608	-	-	-	-	-	77 608
Past due but not impaired	-	5 311	762	110	62	309	6 554
Impaired	2 041	1046	523	806	589	19167	24172
Total							**108 334**
Less: impairment provision							**(19 677)**
Total							**88 657**

Credit quality of financial assets neither past due nor impaired

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

16 Prepayments, deferred charges and accrued income

	Year ended 31 December	
	2010	**2009**
Unbilled revenue from electricity supplied	13 307	10 700
Prepayments for services	81	194
Other prepayments and deferred charges	466	579
	13 854	11 473
Provision for impairment of prepayments	(28)	(126)
	13 826	**11 347**

17 Cash and cash equivalents

	Year ended 31 December	
	2010	**2009**
Cash at bank and in hand	10 314	1 696
Short-term time deposits	51 863	73 231
	62 177	**74 927**

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

	2010	**2009**
Cash and cash equivalents	62 177	74 927
Overdrafts (Note 19)	(10 664)	-
	51 513	**74 927**

In 2010 the effective annual interest rate for the short-term deposits was 2.15 per cent. In 2009 the effective annual interest rate for the short-term deposits was 3.59 per cent.

The fair value of cash, short term deposits as at 31 December 2010 amounts to LTL 62 177 thousand (LTL 74 927 thousand as at 31 December 2009).

The credit quality of cash and cash equivalents balances may be summarised as follows as at 31 December 2010 (based on Standard & Poor's and Fitch rating agencies):

Cash balances at banks rated by Standard & Poor's:	
A	37 524
AA-	12 722
B	10 000
Cash balances at banks rated by Fitch:	
A	1 931
	62 177

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

The credit quality of cash and cash equivalents balances may be summarised as follows as at 31 December 2009 (based on Moody's rating agency):

A	2 752
AA	32 379
AA-	39 444
Reitingas nenustatytas	352
	74 927

18 Share capital

As at 31 December 2010 and 2009, the Company's share capital amounted to LTL 111 540 thousand. As at 31 December 2010 and 2009, the share capital is divided into 3 717 998 ordinary registered shares with par value of LTL 30 each. All the shares are fully paid. The Company did not hold own shares.

19 Borrowings

	Year ended 31 December	
	2010	**2009**
Non-current bank loans		
Bank loans	129 367	386 148
	129 367	386 148
Current borrowings		
Current portion of non-current bank loans	256 781	102 788
Bank overdrafts	10 664	-
	267 445	102 788
Total borrowings	**396 812**	**488 936**

As at 31 December 2010, the Company had the following borrowing agreements entered with banks:

with Swedbank AB (contract No. 08-004924-AK) for the amount of LTL 70 294 thousand, maturity date: 30 November 2011 (31 December 2009: outstanding balance of LTL 85 755 thousand)

with Nordea Bank Finland Plc (contract No. KS08/01/07) for the amount of LTL 60 987 thousand, maturity date: 30 November 2011(31 December 2009: outstanding balance of LTL 77 263 thousand); contract No. KS08/03/17; loan amount: LTL 96 440 thousand; maturity date: 31 March 2013 (31 December 2009: outstanding balance of LTL 139 303 thousand)

with Danske bank A/S; overdraft of LTL 10 664 thousand, maturity date: 31 July 2011

with Danske bankas A/S (contract No. K200802-0066) for the amount of LTL 88 421 thousand, maturity date: 1 April 2013 (31 December 2009: outstanding balance of LTL 101 053 thousand)

with SEB bank (contract No. 0040805012056-15); for the amount of LTL 70 006 thousand, maturity date: 30 November 2011 (31 December 2009: outstanding balances of LTL 85 562 thousand)

These loans are denominated in EUR.

In 2010 and 2009, the Company did not fulfil its obligations concerning cash flows through bank accounts for all loans. However, it received confirmations from banks that in their opinion the Company as at 31 December 2010 is in compliance with all contract terms. Therefore the loans were not reclassified to current.

Actual interest rates are close to effective interest rates. As at 31 December 2010, the weighted average interest rate on long-term borrowings was 1.61 per cent (31 December 2009: 1.529 per cent) All financial liabilities are subject to variable interest rates. As at 31 December 2010 and 2009, the interest rate refixing periods on financial liabilities varied from 3 to 6 months.

The maturity of borrowings was as follows:

	Year ended 31 December	
	2010	**2009**
Within one year	267 445	102 788
Within 2 to 5 years	129 367	386 148
After 5 years	-	-
	396 812	**488 936**

As at 31 December 2010 and 2009, the Company had no pleadged assets as a security for borrowings.

On 26 July 2010, the Company concluded an agreement for a LTL 35 528 thousand overdraft with Danske bank. The withdrawn amount of the overdraft was LTL 10 664 thousand as at 31 December 2010.

20 Grants and subsidies

Grants and subsidies relate to funds received from the EU structural funds and property, plant and equipment received by the Company for no consideration.

	Year ended 31 December	
	2010	**2009**
Funds received and receivable from the EU Structural Funds	32 300	33 402
Property, plant and equipment received at no consideration (less accumulated depreciation)	7 511	7 882
	39 811	**41 284**

Financing from the EU Structural Funds represents support received under the contract signed on 8 July 2005 for the implementation of infrastructure modernisation of the Company.

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

In year 2009, the Company recognised the following grants: LTL 15 000 thousand for the electricity network modernisation provided by VĮ Lietuvos verslo paramos agentūra and LTL 1 021 thousand provided by the Lithuanian Ornithologist Union. Funds received in 2010 amounted to LTL 402 thousand (2009: LTL 345 thousadn).

Amortisation of grants and subsidies, related to property, plant and equipment received at no consideration and financing from the EU funds, amounting to LTL 1 415 thousand in 2010 (LTL 1 435 thousand in 2009) decreased the depreciation expenses of property, plant and equipment in the statement of comprehensive income.

21 Employee benefit liability

The amount presents a pension liability according to Lithuanian legislation. According to the Lithuanian Labour Code each employee upon the retirement is entitled to receive a payment of 2 monthly salaries from its employer.

22 Deferred income

Deferred income relates to contributions received from new customers until 1 July 2009 for the connection to the network.

Information about the connection income is presented below:

	Year ended 31 December	
	2010	**2009 (Restated)**
Opening balance	193 289	188 901
New customers fees received during the year	-	21 758
Recognised as income in the income statement	(8 569)	(8 515)
Effect of change in accounting policy (Note 2.1)	-	(8 855)
Closing balance	**184 720**	**193 289**
Current portion of new customer connection income (Note 25)	(8 570)	(8 570)
	176 150	**184 719**

With effect from 1 July 2009, 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 (refer to paragraph 2.1 of the accounting policies). Accrued income until 1 July 2009 is recognised as income over an average useful life of non-current assets.

23 Income tax and deferred income tax

The standard income tax rate in Lithuania was 15 per cent in 2010 (2009: 20 per cent).

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the company changes its activities due to which these losses incurred except when the company does not continue its activities due to reasons which do not depend on company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Income tax expense/(income) components:

	Year ended 31 December	
	2010	**2009 (Restated)**
Current year income tax expense	16 109	45 665
Adjustment of previous year income tax	389	244
Effect of change in accounting policy on current income tax (Note 2.1)	-	1 328
Deferred income tax (income)	(29 590)	(64 455)
Income tax expenses (income) recognised in the statement of comprehensive income	**(13092)**	**(17218)**

	Year ended 31 December		Recognised in the year ended 31 December 2010	
	2010	**2009 (Restated)**	**in profit or loss**	**in other comprehensive income**
Components of deferred income tax assets:				
New customer connection income	8 332	8 773	441	-
Accrued charges	621	142	(479)	-
Deferred income		965	965	-
Impairment of assets (inventories and trade receivables)	3 647	3 508	(139)	-
Deferred income tax assets	**12 600**	**13 388**	**788**	**-**
Components of deferred income tax liability:				
Revaluation of property, plant and equipment	(161 864)	(184 732)	(21 946)	(922)
Accelerated tax depreciation	(48 906)	(57 338)	(8 432)	-
Deferred income tax liability	**(210 770)**	**(242 070)**	**(30 378)**	**(922)**
Deferred income tax, net	**(198 170)**	**(228 682)**	**(29 590)**	**(922)**

	Year ended 31		Recognised in the year ended	
	2009 (Restated)	**2008**	**in profit or loss (Restated)**	**in other comprehensive**
Components of deferred income tax assets:				
New customer connection income	8 773	12 267	3 494	
Accrued charges	142	190	48	
Deferred income	965	806	(159)	
Impairment of assets (inventories and trade receivables)	3 508	5 087	1 579	
Deferred income tax assets before impairment charge	13 388	18 350	4 962	
Less: impairment charge	-	(244)	(244)	
Deferred income tax assets, net	**13 388**	**18 106**	**4 718**	
Components of deferred income tax liability:				
Revaluation of property, plant and equipment	(184 732)	(329 758)	(38 225)	(106 801)
Accelerated tax depreciation	(57 338)	(88 286)	(30 948)	-
Deferred income tax liability	**(242 070)**	**(418 044)**	**(69 173)**	**(106 801)**
Deferred tax, net	**(228 682)**	**(399 938)**	**(64 455)**	**(106 801)**

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

Deferred income tax asset and deferred income tax liability are set off in the balance sheet of the Company, as they both are related to the same tax authority.

Deferred income tax related to items charged or credited to other comprehensive income

	Year ended 31 December	
	2010	2009 (Restated)
Change in estimation of deferred income tax liability due to the change in tax rate	-	61 578
Deferred income tax on asset revaluation	922	45 224
	922	**106 802**

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 2010 and 20 per cent for 2009 to pre-tax income from continuing operations as follows:

	Year ended 31 December	
	2010	2009 (Restated)
Profit/(loss) before income tax	(69 716)	(5 099)
Income tax calculated at 15% (2009: 20%)	(10 457)	(1 020)
Income not subject for tax	126	1 033
Expenses not deductible for tax purposes	(3 150)	(2 838)
Adjustment of previous year income tax	389	244
Effect of income tax rate change	-	(14 637)
Income tax expenses (income) recognised in the statement of comprehensive income	**(13 092)**	**(17 218)**

24 Trade, other financial liabilities and other payables

	Year ended 31 December	
	2010	2009
Trade payables	152 274	128 252
Dividends payable	7 687	7 758
Other	12	32
Trade and other financial liabilities	159 973	136 042
Wages, salaries and social security payable	2 779	1 836
Taxes (other than income tax)	142	2 760
Other accounts payable	2 921	4 596
	162 894	**140 638**

Terms and conditions of the above financial liabilities:
- Trade payables are non-interest bearing and are normally settled on 15 - 60 day terms. The same terms apply for purchases from related parties.

- Other payables are non-interest bearing and have an average term of 1 - 2 months.

25 Advances received, accrued charges and deferred income

		Year ended 31 December	
		2010	2009
Accrued charges	(a)	6 630	6 763
Advances for new connections		14 214	12 125
Current portion of new customer connection income (Note 22)		8 570	8 570
Deferred income – advances received for the electricity	(b)	-	6 433
Other advances		2 967	4 092
		32 381	**37 983**

(a) An accrued charges item mainly contains accrued payroll-related liabilities to employees (vacation and bonus accruals) and related social security taxes that amounted to LTL 5 840 thousand and LTL 6 324 thousand as at 31 December 2010 and 2009, respectively.

(b) In 2009, the Company has accounted for a decrease in revenue from electricity of LTL 6 433 thousand due to overdeclaration that was caused by rise in electricity tariffs from 1 January 2010 (larger than actually consumed quantity of electricity was declared by residents for December 2009). The overdeclared amount was recognised as deferred income for electricity.

26 Investments in associates

On 21 October 2010, the share subscription agreement was signed with Kruonio Investicijos UAB (on 2010 October 28 changed the name to NT Valdos UAB). The Company acquired 29% of 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 89 756 thousand (equivalent to fair value) (Note 12)

	Year ended 31 December	
	2010	2009
At 1 January	-	-
Acquisition of associate	89 756	-
At 31 December	**89 756**	**-**

Financial results of operations of the associate are presented below:

Name	Country	Assets	Liabilities	Sales revenue	(Loss) for the year	Percentage of shares held (%)
2010						
NT Valdos UAB	Lithuania	316 190	10 735	9 122	(3 422)	29%

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

Investment in the associate is stated at cost. The Company's share of the post-acquisition loss of the acquired associate amounting to LTL 882 thousand was not recognised in the Company's financial statements as it was considered immaterial by the Company's management.

27 Available-for-sale financial assets

	Year ended 31 December	
	2010	**2009**
At 1 January	-	
Additions	2 492	-
At 31 December	**2 492**	**-**

On 13 October 2010, the share subscription agreement was signed with Technologijų ir Inovacijų Centras UAB. Purchase consideration for the shares acquired comprised a monetary contribution of LTL 400 thousand and in-kind contribution of LTL 2 092 thousand. As a result, the Company acquired 5 per cent of ordinary registared shares in Technologijų ir Inovacijų Centras UAB. Property, plant and equipment and intangible assets contributed amunted to LTL 1 631 thousand and inventory and current assets contributed amounted to LTL 461 thousand.

28 Financial risk management

Credit risk

The Company is exposed to credit risk due to which a party may incur losses in case the other party fails to fulfil its financial obligations. Exposure to credit risk arises as a result of the Company's sale of services and electricity on credit terms and other transactions with counterparties giving rise to financial assets.

The Company 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 financial asset. Therefore, the Company's management believes that the maximum risk approximates the amount of cash and cash equivalents, trade and other receivables less recognised impairment loss at the balance sheet date. There is no significant credit risk concentration in the Company. The Company does not expect losses on financial assets which are not overdue and are not impaired.

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

The Company's management regularly reviews ageing analysis of trade receivables past due, assesses their recoverability and establishes impairment provisions for amounts uncollectible.

Maximum exposure to credit risk amounts to LTL 171 673 thousand and LTL 213 797 thousand as at 31 December 2010 and 2009, respectively.

Interest rate risk

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

The major part of the Company's borrowings bear variable interest rate linked with EURIBOR which expose the Company to the interest rate risk. As at 31 December 2010 and 31 December 2009, the Company had no interest rate hedging transactions and had no financial instruments designated to manage its exposure to fluctuation in interest rates.

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

	Increase/ decrease in percentage points	**Effect on profit before tax**
2010		
Financial liabilities in LTL	+ 0,5	17
Financial liabilities in LTL	- 0,5	(17)
Financial liabilities in EUR	+ 0,5	(1 931)
Financial liabilities in EUR	- 0,5	1 931
2009		
Financial liabilities in LTL	+ 0,5	155
Financial liabilities in LTL	- 0,5	(155)
Financial liabilities in EUR	+ 0,5	(2 445)
Financial liabilities in EUR	- 0,5	2 445

Foreign exchange risk

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

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total amounts payable within one year and current liabilities) as at 31 December 2010 were 0.41 and 0.38, respectively (0.76 and 0.73 as at 31 December 2009, respectively).

As at 31 December 2010 the Company's current liabilities exceeded its current assets by LTL 276 292 thousand (31 December 2009 - LTL 67 778 thousand) as a longer term of settlements with suppliers and contractors was fixed. In 2010 the Company's cash flows from operating activities were positive and amounted to LTL 161 019 thousand (2009 - LTL 310 239 thousand). In 2010 the Company repaid borrowings of LTL 102 778 thousand (2009 - LTL 105 870 thousand). In the opinion of the Company's 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.

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

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.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	27 565	82 112	393 121	-	502 798
Trade and other financial liabilities	-	140 638	-	-	-	140 638
Balance at 31 December 2009	-	168 203	82 112	393 121	-	643 436
Interest bearing loans and borrowings	-	37 938	235 015	131 381		404 334
Trade and other financial liabilities	-	162 894				162 894
Balance at 31 December 2010	-	200 832	235 015	131 381	-	567 228

Fair values of financial instruments

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.

As at 31 December 2010 and 31 December 2009, the carrying amount of the Company's financial assets and liabilities approximates their fair value.

The fair value of loans, other financial liabilities and other financial assets is estimated using market interest rates.

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

a) The carrying amount of current financial assets and current liabilities approximates fair value due to their relatively short maturity.

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

c) The fair value of available-for-sale financial assets is determined using the methods described in Note 2.20.

Capital management

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

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

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

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

29 Commitments and contingencies

Capital expenditure commitments

As at 31 December 2010, capital expenditure contracted for at the balance sheet date but not recognised in the financial statements amounted to LTL 40 933 thousand (LTL 18 457 thousand as at 31 December 2009).

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 dated 31 August 2010 the deadline was extended until 1 July 2011.

At the present moment, additional requests may be submitted until 1 July 2011. Requests will not be accepted after the deadline. Requests received will be considered, examined and the buyout will be performed.

In 2010, assets were bought out from 277 homestead cooperatives for a consideration of LTL 1 824 thousand (2009 - 0).

Agreements for lease of assets

At the end of September 2010, the Company moved to premises located at Žvejų St.14. Under the trilateral lease agreement premises were leased from Lietuvos Energija AB for a lease payment of LTL 32 per 1 square metre. On 24 November 2010 this agreement was transferred to NT Valdos UAB and is valid for the period of ten years as of the date of signing.

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

30 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 7 668 thousand repayable to LEO LT, AB (Note 10).
Acquisition of assets from Visagino Atominė Elektrinė UAB for LTL 1 352 thousand by making a loan repayment (Note 15).
Contribution in-kind to the share capital of associate of LTL 89 756 thousand (Note 26).
Purchase of available for sale financial asset by contributing property, plant and equipment, intangible assets and inventory of LTL 1 631 thousand (Note 27).

In 2009

No non-monetary transactions have occurred.

31 Related party transactions

Transactions with the Company's management

As at 31 December 2010, the Comapny's key management personnel included 4 managers (2009: 4 managers). The total remuneration of the Company's key management personnel amounted to LTL 769 thousand in 2010 (2009: LTL 1 687 thousand, including termination benefits of LTL 596 thousand). The management of the Company did not receive any loans, guarantees or property transfers were made.

Transactions with other related parties

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.
NT Valdos UAB, associate of the Company

Transactions and balances with other related parties are presented below:

(I) Sales

	2010	2009
Lietuvos Energija AB (VAE group entity)	950	20 753
Kauno Energetikos Remontas UAB (VAE group entity)	330	253
VŠĮ Respublikinis energetikų mokymo centras (VAE group entity)	4	3
NT Valdos UAB (associate)	312	
Litgrid UAB (VAE group entity)	11 928	-
Litgrid Turtas UAB (VAE group entity)	8	-
Lietuvos Elektrinė AB (VAE group entity)	196	
LEO LT, AB (interest on loan granted)	211	96
Visagino Atominė Elektrinė (interest on loan granted)	159	-
	14 098	**21 105**

(II) Purchases of goods and services

	2010	2009
Lietuvos Elektrinė AB - electricity (VAE group entity)	165 208	14 675
Lietuvos Energija AB - electricity (VAE group entity)	269 123	515 107
Ignalina Nuclear Power Plant* - electricity	-	126 280
LEO LT, AB - consulting services	102	1 072
Elektros Tinklo Paslaugos UAB - repair works (VAE group entity)	235	304
Rytų Skirstomieji Tinklai (VAE group entity)	-	54
VŠĮ Respublikinis energetikų mokymo centras - services (VAE group entity)	51	73
Energetikos Pajėgos UAB - services (VAE group entity)	80	30
Inter Links UAB (VAE group entity)	14	-
Visagino Atominė Elektrinė UAB - purchases of PPE	1 135	-
Kauno Energetikos Remontas UAB - repair services (VAE group entity)	2	-
NT Valdos UAB - operating lease (associate)	5 166	-
Litgrid UAB - transmission services (VAE group entity)	332 084	-
Litgrid Turtas UAB (VAE group entity)	1	-
Technologijų ir Inovacijų Centras UAB - operating lease (VAE group entity)	1 870	-
	775 071	**657 595**

(III) Payables and advances received

	2010	2009
Lietuvos Elektrinė AB (VAE group entity)	11 099	1 730
Ignalina Nuclear Power Plant*	-	10 165
Lietuvos Energija AB (VAE group entity)	30 370	57 621
Energetikos Pajėgos UAB (VAE group entity)	-	36
VŠĮ Respublikinis energetikų mokymo centras (VAE group entity)	-	20
NT Valdos UAB (associate)	2 813	-
Litgrid UAB (VAE group entity)	41 861	-
Litgrid Turtas UAB (VAE group entity)	77	-
Technologijų ir Inovacijų Centras UAB (VAE group entity)	2 163	362
	88 383	**69 934**

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

(IV) Receivables

	2010	2009
VŠĮ Respublikinis energetikų mokymo centras (VAE group entity)	1	1
Visagino Atominė Elektrinė UAB (loan granted) (Note 15)	13 980	
LEO LT, AB (loan granted) (Note 15)	-	31 000
Lietuvos Energija AB (VAE group entity)	151	3 014
Litgrid Turtas UAB (VAE group entity)	10	-
Litgrid UAB (VAE group entity)	1 974	-
NT Valdos UAB (associate)	35	
UAB Kauno Energetikos Remontas (VAE group entity)	40	30
	16 191	**34 045**

Ignalina Nuclear Power Plan is an entity controlled by the Government of the Republic of Lithuania. In 2009 the Company purchased electricity of LTL 126 280 thousand from this entity. No transactions were entered into in 2010.

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010 and 2009, the Company has not made any provision for doubtful debts relating to amounts owned by related parties as all the assets are not overdue. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

(V) Lease agreements

At the end of September 2010, the Company moved to premises located at Žvejų St.14., Vilnius. Under the trilateral lease agreement premises were leased from Lietuvos Energija AB for a lease payment per 1 square metre of LTL 32. The total monthly lease payment amounts to LTL 93 thousand, 60 per cent of which is to be paid by Rytų Skirstomieji Tinklai AB and the remaining amount by the Company. Other fees under this agreement amounted to LTL 4 per 1 square metre. Utility fees for 2010 were paid directly to service providers. On 22 October 2010, the trilateral agreement for the lease of immovable goods was signed with NT Valdos UAB. A monthly lease payment for these premises amounted to LTL 689 thousand. This trilateral agreement expired on 31 December 2010. From 22 October 2010, a car, cargo and specific purpose vehicles are leased from the associate NT Valdos UAB. As at 31 December 2010, the Company leased 345 cars, 180 cargo and 237 specific purpose vehicles. Payments made for the lease of motor vehicles amounted to LTL 3 026 thousand during the reporting period.

(VI) Contribution to associate

On 21 October 2010, the share subscription agreement was signed with Kruonio Investicijos UAB (VAE group entity) (on 2010 October 28 changed the name to NT Valdos UAB). The Company acquired 29% of 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 89 756 thousand (equivalent to fair value) (Note 26)

(VII) Acquisition of available for sale financial assets

On 13 October 2010, the share subscription agreement was signed with Technologijų ir Inovacijų Centras UAB (VAE group entity). Purchase consideration for the shares acquired comprised a monetary contribution of LTL 400 thousand and in-kind contribution of LTL 2 092 thousand. As a result, the Company acquired 5 per cent of ordinary registared shares in Technologijų ir Inovacijų Centras UAB. Property, plant and equipment and intangible assets contributed amunted to LTL 1 631 thousand and inventory and current assets contributed amounted to LTL 461 thousand (Note 27).

32 Reserves

a) Legal reserve

A legal reserve is a compulsory reserve under the 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. The legal reserve may be used to cover the Company's losses only.

As at 31 December 2010 and 2009, a legal reserve was fully established.

b) 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. Movements in the revaluation reserve is disclosed in Note 12.

33 Events after the end of the reporting period

On 1 January 2011 the Company merged with Rytu Skirstomieji Tinklai AB forming LESTO AB. LESTO AB took over all assets, rights and obligations of the Company. Licensed activities of electricity transmission and public supply conducted by the Company were also taken over and are continued by LESTO AB.

VST

KAD GYVENTI BŪTŲ ŠVIESIAU

VST, AB
ANNUAL REPORT
2010

www.vst.lt

Contents

GENERAL INFORMATION

Essential information

Implementing energy sector reform plan, both electricity distribution companies- VST, AB (hereinafter- VST, Company) and Rytų Skirstomieji Tinklai (hereinafter- RST) 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 joint stock company VST in the financial year 2010 for its shareholders, creditors and other stakeholders.

Regulation of the annual report

The annual report of VST has been prepared in accordance with Article 25 of the Law on Financial Statements 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	VST, AB
Company Reg. No.	110870748
Former Company Reg. No.	1087074
Authorised Capital	LTL 111 539 940
Former Address	J.Jasinskio str. 16C, LT-01112 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 the Company was the distribution and supply of electricity through medium and low voltage power to its consumers in Kaunas, Klaipėda and Šiauliai regions of Lithuania. VST was responsible for the security, reliable performance, maintenance, management and development of electricity networks.

Information on branches of the Company

Company had no branches in 2010.

OVERVIEW OF ACTIVITIES

Reorganization of the Company

On 4 January, 2010 the Extraordinary General Meeting of Shareholders of VST 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 VST 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 Mr. Arvydas Darulis as the Chairman of the Board of LESTO and Mr. Arvydas Tarasevičius as the General Manager of LESTO.

On 21 December, 2010 trading in shares of VST in the Second List of AB NASDAQ OMX Vilnius stock exchange had been suspended until deregistration of VST 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 VST and LESTO and also RST and LESTO signed transfer-acceptance acts according to which all the assets, rights and obligations of VST and RST 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.

On 17 January, 2011 LESTO shares were included into Main list of NASDAQ OMX Vilnius.

Other key events of reporting period

On 30 April, 2010 the General Meeting of Shareholders of VST adopted a decision to pay out dividends to the shareholders of the Company (dividends per share - LTL 2.10).

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 VST, AB for the second half of 2010. Since 1 July, 2010 the nighttime tariff for the household consumers will be 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 is approved by the Government), on 4 June liquidating LEO LT, AB lost all shares and votes of VST. Visagino atominė elektrinė, UAB indirectly controlled by the Republic of Lithuania, acquired from the liquidating LEO LT, AB 3 651 534 ordinary registered shares (face value of each share is equal to LTL 30 (thirty) 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 VST took a decision to become a participant and to invest 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 5.62 percents of Technologijų ir Inovacijų Centras, UAB shares and 28.99 percents of NT Valdos, UAB shares.

The Company's strategy and objectives

In 2010, Company consistently invested in distributive network, reconstructed and modernized electricity substations. New installed equipment is environment-friendly and of the highest quality.

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

Investment

In 2010 investments made by the Company totaled 109.4 million LTL. Distribution of VST investment: LTL 12.9 million was invested in the 110/35 kV electricity grid, LTL 92.4 million – in the maintenance of the low-voltage grid and connection of new customers to the distribution equipment, LTL 4.4 million – in the implementation of communication and control systems and electricity metering equipment, LTL 0.4 million- in the reconstruction of non-manufacturing buildings and transport purchase.

LTL 37.1 million was invested in Klaipėda region in 2010, respectively LTL 37 million in Kaunas region, LTL 35.3 million in Šiauliai region. In 2010 Company completed these objects: Centras 35/10 kV TS (reconstruction was carried out in 2009- 2010, value of the project- LTL 8.2 million); Naujoji Akmenė 110/35/10 kV TS (reconstruction was carried out in 2009- 2010, value of the project- LTL 8.5 million this project was partly financed by EU). In 2010 reconstruction of Gubernija 110/10 kV was started, this project is also partly financed by EU, approximate value- LTL 7 million.

Quality of electricity supply (SAIDI, SAIFI)

In 2010, the system average interruption duration index (SAIDI) per customer made up 259.33 min, in 2009 this index reached 139.98 min. The system average interruption frequency index (SAIFI) per customer made up 1.98 times in 2010, respectively in 2009- 1.89 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 86.47 and was lower than in 2009, when this index made up 92.94 min. Excluding the effect of natural phenomena, in 2008 SAIDI made up 93.5 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 1.33 times. In 2009, it made up 1.53 times.

Personnel

Increased effectiveness of the processes and implementation of energy sector made significant change in employees number. Number of VST employees went down by 15.5 percent during 2010. At the end of the year VST had employed 1559 employees i.e. 285 employees less than in the end of 2009.

VST employees by category

Category of employees	Number of employees		Change
	31 12 2009	31 12 2010	
Managers	111	105	-5,4%
Specialists	1 163	988	-15,0%
Workers	570	466	-18,2%
All employees	1 844	1 559	-15,5%

Structure of employees by education: 32.5 percent of employees had higher university education, 55.2 percent- higher non-university, post graduate, specialized secondary or professional education and 12.3 percent- secondary or lower education.

Average salary in 2010 made up LTL 2 605, compared to 2009 growth of salary reached 4 percents (in 2009 salary went up by 2.8 percent, in 2008- 22.2 percent, in 2007- 12 percent). Average monthly salary of workers was LTL 2 246, specialists and managers earned LTL 2 765.

Average salary of VST employees

Category of employees	Gross salary 2009	Gross salary 2010	Change
Managers and specialists	2649	2765	4,4%
Workers	2187	2246	2,7%
All employees	2505	2605	4,0%

Collective agreement signed by Company's and employee's representatives was valid in VST. The purpose of collective agreement was to ensure effective activity of the Company and to represent the rights and needs of the employees. The Collective agreement regulates working conditions, salary system, social and professional guarantees.

The collective agreement specified a scheme of remuneration for work of VST 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).

Consistent personnel policy was orientated towards achievement of Company's objectives. Policy aimed to develop abilities that enabled employees to achieve strategic objectives, improve organisational culture and to assure higher value for the costumers and partners.

Costumer services quality

In 2010 Company evaluated satisfaction of the costumer services by TRI*M index, satisfaction of the private costumers reached 46 points of index and for business costumers- 49 points of index.

In order to improve costumer service quality VST updated standards and rules of costumer services and implemented staff training program.

In 2010 Company introduced electronic invoice to business costumers and website for information to private costumers.

A Secret Customer survey was carried out through visits to customer service centers or phone calls in order to evaluate costumer service.

In 2010, four customer service centers in Jurbarkas, Šakiai, Tauragė and Raseiniai were renovated.

Social projects and initiatives

Cooperation with KTU

In 2010 VST granted scholarships for 30 students who were studying Electrical sciences at Kaunas Technology University. Company also assisted KTU in publishing Electrical engineering dictionary and supported publishing of these course books: Engineering Thermodynamics by P. Švenčianas and A. Adomavičius and also Equipment of nuclear power plants by J. Gylys and L. Ašmontas.

Educational campaign “Electricity as a Friend but Not a Playmate”

For a forth year in a row the Company organised an educational campaign for children „Electricity as a Friend but Not a Playmate” aimed at teaching children how to deal with electricity safely. Schoolchildren were taught about efforts and risks of electricity.

Youth inventors contest

In April- June, 2010 VST organised and publicized contest, which aimed to involve schoolchildren of 7-12 grade into creational process of educational software and hardware.

Environmental protection campaign "To Bring More Light into Life"

Employees of VST were not indifferent to the environmental protection. In 2010, a social campaign entitled „To Bring More Light into Life" was organised. The main purpose of the campaign was to express Company values in everyday life. During this campaign over a thousand of VST employees were involved in environmental clean up works.

Environment Protection

In its activities, VST 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.

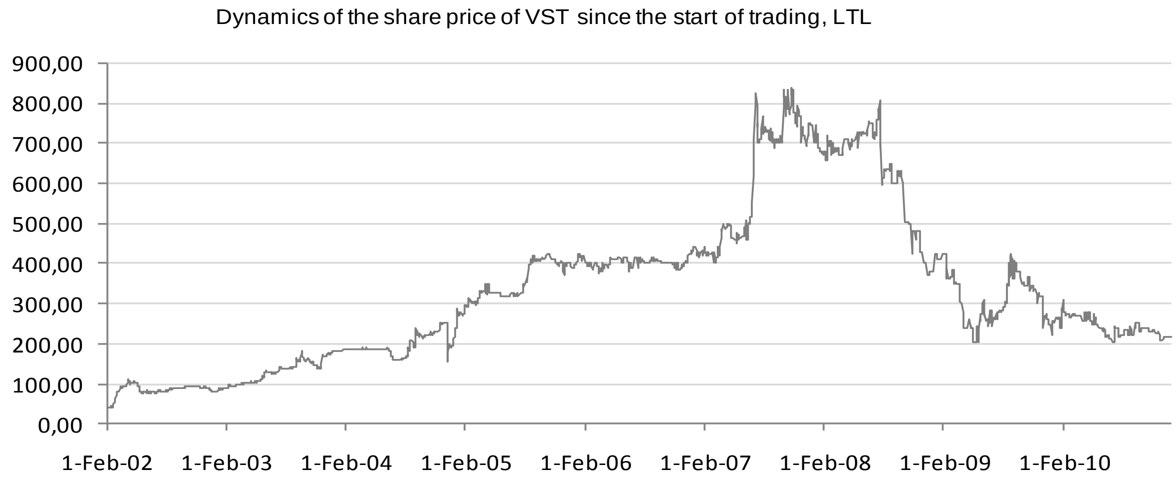
When reconstructing transformer substations, old and worn-out power transformers are replaced with more silent ones. This considerably reduces the level of noise. Additional equipment for collecting insulating oil in transformer substations was installed.

The company continued its campaign for the preservation of stork nests. In 2010, 374 nests were raised by the VST specialists on utility poles.

OTHER INFORMATION ABOUT THE ISSUER

VST shares were included in the Second List of NASDAQ OMX Vilnius on 1 February 2002. VST shares were not traded in other regulated markets

ISIN code	Trading List	Abbreviation of securities	Number of shares	Nominal value of share, LTL
LT0000126377	BALTIC I-LIST	VST1L	3 717 998	30



Since the start of trading in VST shares, the share price increased 5.5 fold, from LTL 39.39 (1 February 2002) to LTL 217.53 (20 December 2010). The highest share price ever (LTL 840.00) was recorded on 24 October 2007, while the highest share price in 2010 (LTL 3.14) was recorded on 2 February, the lowest share price (LTL 202.00) was recorded on 30 July.

Information related to shares and dividends

	2010	2009	2008	2007	2006
Number of shares	3 717 998	3 717 998	3 717 998	3 717 998	3 717 998
Net profit per share (LTL)	-15,23	3,26	3,14	18,09	16,05
Highest share price (LTL)	310,00	425,00	810,00	840,00	435,00
Lowest share price (LTL)	202,00	204,00	370,00	400,00	375,00
Average share price (LTL)	242,96	319,51	628,90	600,85	403,43
Last share price (LTL)	217,53	255,00	380,00	748,00	440,00
Share turnover (LTL million)	413,30	452,19	4.989,36	7.977,96	4.059,47
Capitalisation (LTL million)	808,76	948,09	1.412,84	2.781,07	1.635,92
Dividends per share paid (LTL)	n.d.	2,10	-	166,92	16,00
PE ratio	-14,28	78,23	121,01	41,36	27,41
Dividends/net profit	n.d.	644,26	-	9.229,24	996,83
Total dividends (LTL million)	n.d.	7,81	-	620,61	59,49

Information on agreements with intermediaries of public trading in securities

VST, AB and Swedbank, AB had an agreement on accounting for securities issued by the Company and management of personal securities accounts. Swedbank, AB is also official manager of LESTO security account.

Contact details of Swedbank, AB:

Konstitucijos ave. 20A, LT-03502 Vilnius

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

Authorised capital structure

The authorised capital of VST had not changed during the reporting period and was equal to LTL 111 539 940. On 31 December, 2010 authorised capital of VST consisted of 3 717 998 ordinary registered shares. All shares of the Company are fully paid.

Type of shares	Number of shares	Nominal value, LTL	Total nominal value, LTL	Percentage of authorised capital
Ordinary registered shares	3 717 998	30	111 539 940	100

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

VST had no own shares prior to the accounting period and did not acquire any own shares.

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

The Company did not acquire or transfer its own shares during reporting period.

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

The Company did not acquire or transfer its own shares during reporting period.

Reasons for acquisition of own shares in the accounting period

The Company did not acquire its own shares during reporting period.

Subsidiaries of the company, share purchase or sale

On 13 October, 2010 Company acquired 2 491 999 ordinary registered shares in Technologijų ir Inovacijų Centras, UAB (company code 302527488, with the registered office at Žvejų str. 14, Vilnius, Republic of Lithuania) with the par value of LTL 1 (one litas) which makes 5,62% of all shares issued in Technologijų ir Inovacijų Centras, UAB.

On 21 October, 2010 VST acquired 897 565 (eight hundred ninety seven thousand five hundred sixty five) ordinary registered shares in NT Valdos, UAB (company code 300634954, registered address Geologų Str. 16, Vilnius, Republic of Lithuania) with the par value of LTL 100 (one hundred litas) which makes 28,99% of all shares issued in NT Valdos, UAB.

Restrictions on transfer of securities

No restrictions on the transfer of securities were known to the Company on 31 December 2010.

Shareholders

On 31 December 2010, the number of VST shareholders totalled 3 848. At the time of the last General Meeting of Shareholders on 13 December 2010, there were 3.847 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)	Numbers of ordinary registered shares, pcs.		Part of the share capital and votes, percent		
	total	Including shares owned by the shareholders under the ownership right	total	Including shares owned by the shareholders under the ownership right	Together with persons acting in corporate, percent
Visagino atominė elektrinė, UAB Žvejų str.14, Vilnius, company reg. No. 301844044*	3 651 534	3 651 534	98,2	98,2	-

* On 4 June, 2010 Visagino atominė elektrinė, UAB acquired from the liquidating LEO LT, AB 3 651 534 ordinary registered shares of VST.

Shareholders having special control rights and description of such rights

On 31 December, 2010 neither of the Company's shareholders had any special control rights. All the shareholders of the Company had equal rights (property and non-property rights) as provided for in the Republic of Lithuania Law on Companies and the Articles of Association of the Company.

Restrictions on voting rights

No restrictions on voting rights were known to the Company on 31 December, 2010.

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

No agreements between the Company's shareholders due to which the securities transfer and/or voting rights may be subject to limitations were known to the Company on 31 December, 2010.

Information on significant shareholdings controlled directly or indirectly

At the end of reporting period Company owned 5.62% of shares of Technologijų ir inovacijų centras, UAB and 28.99% of shares of NT Valdos, UAB.

Procedure for the amendments to the Articles of Association of the Company

According to the Articles of Association of VST and law on companies, the Articles of Association are subject to amendment by decision of the General Meeting of Shareholders and the amendments take effect upon registration in the Legal Entities Register.

Latest amendments to the Articles of Association were made due to decision of General Meeting of Shareholders on 23 July, 2010 and took effect on 2 August, 2010 after registration in the Legal Entities Register.

Rules governing the appointment and replacement of the Issuer's management bodies and authority thereof

The Board was acting in accordance with law, legal regulations, Articles of Association and the decisions of General Meeting of Shareholders. The Board was governed by the chairman that was elected by the members of the Board.

According to the Articles of Association, General Manager was elected by the Board; this principle did not differ from the principles established in the law on Companies,

General Manager in its activities followed laws, Articles of Association, Decisions of General Meeting of Shareholders and Staff regulations.

Scope of competence of the general meeting of shareholders, rights of the shareholders and exercise thereof

The scope of competence of the General Meeting of Shareholders and the rights of the shareholders and exercise thereof are established in the laws and regulations and the Articles of Association of the Company.

No shareholder of the Company had any special control rights and all the shareholders had equal rights. All the shareholders had equal property and non-property rights according to the laws and regulations and the Articles of Association of the Company.

Management bodies of the Company created proper conditions for the exercise of the rights of the shareholders.

Members of management bodies

The Board and the General Manager (CEO) were the management bodies of the Company.

The Board

On 1 January, 2010 the Board consisted of the Chairman- Henrikas Bernatavičius and members: Arvydas Tarasevičius, Rytis Borkys, Vytautas Vazalinskas, Vytautas Kazimieras Aranauskas.

On 30 April, 2010 the General Meeting of Shareholders elected Kęstutis Žilėnas instead of Vytautas Vazalinskas who resigned.

On 23 July, 2010 the general Meeting of Shareholders elected Arvydas Darulis instead of Chairman of the Board Henrikas Bernatavičius. On 19 August, 2010 Arvydas Darulis was also elected to govern the Board.

At the end of reporting period the Board consisted of the Chairman Arvydas Darulis and members: Kęstutis Žilėnas, Arvydas Tarasevičius, Rytis Borkys, Vytautas Kazimieras Aranauskas.

General Manager

Since 28 December, 2009 until the end of reporting period Rimantas Vaitkus worked as a General Manager.

Members of management bodies and their share in the authorised capital of the issuer at the end of reporting period

Name	Position	Share of capital held, %	Share of votes, %.
The Board			
Arvydas Darulis	Chairman	-	-
Kęstutis Žilėnas	Member	-	-
Arvydas Tarasevičius	Member	-	-
Rytis Borkys	Member	0,00016	0,00016
Vytautas Kazimieras Aranauskas	Member	-	-
Head of the Company, Chief Financier			
Rimantas Vaitkus	General Manager	-	-
Zina Cmieliauskienė	Chief Accountant	-	-

Information on participation in the activities of other companies and organisations; shareholdings and votes in other companies exceeding 5% of capital/votes at the end of reporting period.

Name	Name of company/organisation, position	Share of capital held, %	Share of votes, %.
The 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	-	-
	Chairman of the Board at Visagino atominė elektrinė, UAB	-	-
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	-	-
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	-	-

Rytis Borkys	-	-	-
Vytautas Kazimieras Aranauskas	Deputy of General Manager at Klaipėdos nafta, AB	-	-
Head of the Company			
Rimantas Vaitkus	Chairman of the Board at Technologijų ir inovacijų centras, UAB	-	-
	Chief Financier		
Zina Chmieliauskienė	-	-	-

Information about members of the Board of VST on 31 December, 2010

Arvydas Darulis

Position: Chairman of the Board

In this position since: 19 August, 2010

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

Kęstutis Žilėnas

Position: Member of the Board

In this position since: 30 April, 2010

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

Arvydas Tarasevičius

Position: Member of the Board

In this position since: 19 November, 2009

Education:

Vilnius University, Doctor of Social Science

Vilnius University, economist-mathematician

Main occupation: General Manager at RST

Rytis Borkys

Position: Member of the Board

In this position since: 8 July, 2009

Education:

Kaunas Technology University, engineer electrician

Main occupation: Head of Electricity network Department

Vytautas Kazimieras Aranauskas

Position: Member of the Board

In this position since: 8 September, 2009

Education:

Vilnius Gediminas Technical University, radio engineer

Main occupation: Deputy of General Manager at Klaipėdos nafta, AB

Information about General Manager of VST on 31 December,2010

Rimantas Vaitkus

Position: General Manager

In this position since: 28 December, 2009

Education:

Vilnius University, Doctor of Natural Science

Main occupation: General Manager at VST

Information on scope of competence of General Manager of the Company

The General Manager as a single-handed management body of the Company who was responsible for the implementation of resolutions by the General Meeting of Shareholders and the Board, analysis, consideration and evaluation of the Company's operations and business environment, planning of and adopting decisions on the Company's operations, concluding transactions on behalf of the Company on single-handed basis, exercising control over the Company's activities and organising routine activities of the Company.

Information on scope of competence of the Board

The Company was directed by the Board. The Board was responsible for the analysis, consideration and evaluation of the Company's operations and business environment, planning of the Company's operations, adopting key decisions on the Company's management and exercising control over the Company's activities.

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

On 31 December, 2010, no agreements (that provided compensation for members of the Board in the case of their resignation or groundless dismissal, or in the event that a member of the Board quit due to changes in the ownership of the Company) were concluded between the Company and members of the Company's Board.

Significant agreements to which the Issuer is a party and which would take effect or be amended or terminated in case of change in the Issuer's ownership

The Company had not entered into any significant agreements which would take effect or be amended or terminated in case of change in the Issuer's ownership.

Related party transactions

Information on related party transactions is presented in item 28 of the Explanatory Notes to the Audited Financial Statements of VST, AB for 2010.

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.

ANALYSIS OF FINANCIAL RESULTS

Company's net loss totaled LTL 56.6 million in 2010. In 2009 VST experienced net profit of LTL 12.1 million. Negative results of the Company in 2010 were determined by increased expenses on electricity purchase.

The main indicators of VST

Financial indicators	2010	2009	2008
Income (LTL thousand)	1 161 026	1 142 425	1 164 149
EBITDA margin	*16,3%*	*29,2%*	*29,7%*
Operating profit(loss) (LTL thousand)	(65 384)	6 176	45 237
Operating profit margin	*-5,6%*	*0,5%*	*3,9%*
Profit (loss) before tax (LTL thousand)	(69 716)	(5 099)	28 474
Profit (loss) before tax margin	*-6,0%*	*-0,4%*	*2,5%*
Net profit (loss) (LTL thousand)	(56 624)	12 119	11 675
Net profit margin	*-4,9%*	*1,1%*	*1,0%*

Relative financial ratios	2010	2009	2008
Return on equity (ROE)	-3,9%	0,8%	0,7%
Return on assets (ROA)	-2,3%	0,5%	0,4%
Equity/assets ratio	0,59	0,57	0,55
Debt/equity ratio	0,70	0,75	0,83
Gross liquidity ratio	0,41	0,76	0,49

Activity indicators	2010	2009	Change, million kWh	Change, %
Amount of electricity distributed, million kWh	3 740.2	3 740.6	-0,4	-0,01
Amount of electricity sold, million kWh	2 833.3	3 757.4	-924,2	-24,60
Amount of electricity purchased, million kWh	4 115.8	4 116.2	-0,3	-0,01

The Company's EBITDA margin went down by 12.9 percent points and reached 16.3% in 2010. The decrease in EBITDA margin was influenced by higher electricity purchase price and lower distribution price.

Following a decrease in liabilities, the debt/equity ratio of VST went down from 0.75 to 0.7 in 2010. The Company's assets exceeded liabilities 1.43-fold at the end of reporting period.

In 2010 free cash flows generated by the Company and liquid current assets decreased. As a result of this reduction, the gross liquidity ratio fell from 0.76 to 0.41 in 2010.

Income

In 2010, VST distributed to the customers almost the same amount of electricity as in 2009. The amount of distributed electricity reached 3 740 million kWh in 2010.Due to electricity market liberalization, electricity sales went down by 24.6% and amounted to 2 833 million kWh in 2010.

In 2010, the income of VST made up LTL 1 122 million, compared to 2009 income increased by 1.3%.

Costs

In 2010 variable costs (purchase of electricity) made up LTL 831.1 million, went up by LTL 147.6 million or 21.6%. The growth of variable costs was determined by increase of electricity purchase price.

VST depreciation costs in 2010, compared with those in 2009, reduced by LTL 37.9 million and amounted to LTL 230.6 million.

Assets

Value of VST assets in 2010 decreased by 7.2% and amounted to LTL 2 453.5 million. More information on VST assets is presented in items 11 and 12 of the Explanatory Notes to the Audited Financial Statements of VST, AB for 2010.

Equity

The Group's consolidated equity decreased by 4.6% and made up LTL 1 444.8 million at the end of reporting period. The equity shrank due to negative results of revaluation of non-current assets.

Liabilities

In 2010 VST financial liabilities decreased by LTL 92.1 million to LTL 396.8 million. More information on VST assets is presented in item 18 of the Explanatory Notes to the Audited Financial Statements of VST, AB for 2010.

RISIKS 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 upon LESTO operations and results.

Governmental policy toward electricity prices is also of importance. 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 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 25 of the Explanatory Notes to the Audited Financial Statements of VST, 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.

LESTO General Manager	Arvydas Tarasevičius
Director of Finance and Administration Division	Ramutė Ribinskienė