

To The Securities Commission of the Republic of Lithuania  
Konstitucijos pr. 23  
LT-08105 Vilnius

August 31, 2011 No. 58-3165

### CONFIRMATION OF RESPONSIBLE PERSONS

Referring to the provisions of the Article 22 of the Law on Securities of the Republic of Lithuania and the Rules for the Drawing up and Submission of the Periodic and Additional Information of the Securities Commission of the Republic of Lithuania, we, the undersigned Virgilijus Poderys, Chief Executive Officer, Vytautas Tauras, Director of Finance and Commerce Department and Tatjana Didikienė, Chief Financier of LITGRID AB, hereby confirm that, to the best of our knowledge, the unaudited interim consolidated financial statements of LITGRID AB for the period ended 30 June 2011 are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, give a true and fair view of the LITGRID AB and consolidated group assets, liabilities, financial position, profit (losses) and cash flows for the relevant period, the Consolidated Interim Report includes a fair review of the development and performance of the business.

Virgilijus Poderys

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Chief Executive Officer

Vytautas Tauras

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Director of Finance and Commerce Department

Tatjana Didikienė

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Chief Financier



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## LITGRID AB

CONSOLIDATED AND THE COMPANY'S CONDENSED  
INTERIM FINANCIAL INFORMATION  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011  
(UNAUDITED)

LITGRID AB

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

TABLE OF CONTENTS

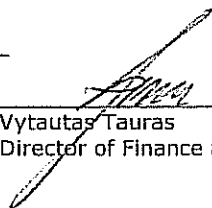
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	PAGE
<b>REVIEW REPORT</b>	3 - 4
<b>CONDENSED INTERIM FINANCIAL INFORMATION</b>	
STATEMENTS OF FINANCIAL POSITION	5
STATEMENTS OF COMPREHENSIVE INCOME	6-7
STATEMENTS OF CHANGES IN EQUITY	8-9
STATEMENTS OF CASH FLOWS	10
NOTES TO THE FINANCIAL INFORMATION	11 - 27

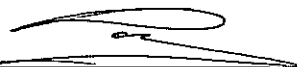
The condensed interim financial information was signed on 18 August 2011.



Virgilijus Poderys  
General Director



Vytautas Tauras  
Director of Finance and Commerce Department



Tatjana Didikienė  
Chief Financier



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

## **Review report of condensed interim financial information**

To the shareholders and Board of Directors of LITGRID, AB

### **Introduction**

We have reviewed the accompanying stand alone condensed interim statement of financial position of LITGRID, AB (hereinafter "the Company") and consolidated condensed interim statement of financial position of the Company and its subsidiaries (hereinafter "the Group") as of 30 June 2011 and the related stand alone and consolidated condensed interim statements of comprehensive income, changes in equity and cash flows for the six – month period then ended, and condensed explanatory notes set out on pages 5 - 27. Management is responsible for the preparation and presentation of this stand alone and consolidated condensed interim financial information in accordance with International Financial Reporting Standards as adopted by the European Union applicable to interim financial reporting (International Accounting Standard (IAS) No. 34, "Interim financial reporting"). Our responsibility is to express a conclusion on this stand alone and consolidated condensed interim financial information based on our review.

### **Scope of review**

Except as explained in the following paragraph, we conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Basis for Qualified Conclusion - scope limitation**

According to the Company's and the Group's accounting policy, property, plant and equipment should be carried at revalued amounts (being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses) and are subject to an impairment test when impairment indicators exist. As explained in Note 3.8 to the condensed interim financial information, amendments to the legislation may have had a significant adverse impact on the fair value and recoverable amount of the Company's and the Group's assets. The Company's and the Group's management was not able to reassess fair values of property, plant and equipment with the carrying amounts of LTL 2,018 million and LTL 2,021 million as of 30 June 2011 (LTL 2,059 million and LTL 2,063 million as of 31 December 2010 respectively), or to carry out a proper impairment test. It has not been possible to estimate reliably the financial effects of this non-compliance.

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### **Qualified Conclusion**

Based on our review, except for the possible effects of the matters described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed interim stand alone and consolidated financial information are not prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union applicable to interim financial reporting (International Accounting Standard (IAS) No. 34, "Interim financial reporting").

On behalf of PricewaterhouseCoopers UAB

A handwritten signature in black ink, appearing to read "C. Butler".

Christopher C. Butler  
Partner

Vilnius, Republic of Lithuania  
19 August 2011

A handwritten signature in black ink, appearing to read "Rimvydas Jogėla".

Rimvydas Jogėla  
Auditor's Certificate No.000457

LITGRID UAB

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

INTERIM STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2011

(All amounts in LTL thousands unless otherwise stated)

	Note	Group at 30 June 2011 (unaudited)	Company at 30 June 2011 (unaudited)	Group at 31 December 2010 (restated)	Company at 31 December 2010 (restated)
<b>Non-current assets</b>					
Intangible assets	4	1,454	1,410	1,750	1,703
Property, plant and equipment	5	2,020,977	2,017,548	2,063,451	2,058,979
Prepayments for property, plant, equipment		87,764	87,764	698	698
Investment property	6	659	659	668	668
Investments in subsidiaries		-	8,608	-	8,608
Investments in associates and joint ventures		19,416	21,332	20,323	21,332
Deferred income tax assets		329	-	325	79
Other financial assets		1,084	1,084	1,084	1,084
<b>Total non-current assets</b>		<b>2,131,683</b>	<b>2,138,405</b>	<b>2,088,299</b>	<b>2,093,151</b>
<b>Current assets</b>					
Inventories		4,338	1,814	3,703	1,751
Prepayments		864	3,387	805	358
Trade receivables		105,267	98,628	144,244	113,826
Other receivables		8,570	1,187	10,437	10,464
Term deposits		99,999	99,999	43,000	43,000
Cash and cash equivalents		49,368	40,307	75,664	65,152
<b>Total current assets</b>		<b>268,406</b>	<b>245,322</b>	<b>277,853</b>	<b>234,551</b>
<b>TOTAL ASSETS</b>		<b>2,400,089</b>	<b>2,383,727</b>	<b>2,366,152</b>	<b>2,327,702</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital		504,331	504,331	504,331	504,331
Share premium		29,621	29,621	29,621	29,621
Revaluation reserve		283,328	283,328	296,353	296,353
Legal reserve		50,477	50,433	47,730	47,665
Other reserves		979,738	979,654	-	-
Retained earnings		66,450	72,213	1,041,718	1,046,075
<b>Equity attributable to owners of the parent company</b>		<b>1,913,945</b>	<b>1,919,580</b>	<b>1,919,753</b>	<b>1,924,045</b>
<b>Non-controlling interest</b>		<b>3,711</b>	<b>-</b>	<b>3,359</b>	<b>-</b>
<b>Total equity</b>		<b>1,917,656</b>	<b>1,919,580</b>	<b>1,923,112</b>	<b>1,924,045</b>
<b>Non-current liabilities</b>					
Grants	7	90,790	90,790	42,349	42,349
Deferred income		15,055	15,055	15,417	15,417
Other non-current accounts payable and liabilities		473	452	459	438
Deferred income tax liabilities		173,316	173,316	192,615	192,615
<b>Total non-current liabilities</b>		<b>279,634</b>	<b>279,613</b>	<b>250,840</b>	<b>250,819</b>
<b>Current liabilities</b>					
Trade payables		155,731	142,892	145,837	118,661
Advance amounts received		2,903	829	11,298	2,026
Income tax payable		27,390	27,282	12,693	12,662
Other amounts payable		16,775	13,531	22,372	19,489
<b>Total current liabilities</b>		<b>202,799</b>	<b>184,534</b>	<b>192,200</b>	<b>152,838</b>
<b>Total liabilities</b>		<b>482,433</b>	<b>464,147</b>	<b>443,040</b>	<b>403,657</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,400,089</b>	<b>2,383,727</b>	<b>2,366,152</b>	<b>2,327,702</b>

The accompanying notes form an integral part of this condensed interim financial information.

LITGRID AB

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

**INTERIM STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011**  
(All amounts in LTL thousands unless otherwise stated)

	<b>Note</b>	<b>Group January–June 2011</b> (unaudited)	<b>Company January–June 2011</b> (unaudited)
<b>Revenue</b>			
Sales revenue	8	187,468	187,418
Other operating income		21,674	2,162
		<b>209,142</b>	<b>189,580</b>
<b>Operating expenses</b>			
Depreciation and amortisation		(66,949)	(66,388)
Purchase of electricity or related services		(57,811)	(59,020)
Purchase of capacity reserves		(30,851)	(30,851)
Salaries and related expenses		(16,945)	(8,143)
Transit expenses		(8,046)	(8,046)
Repair and maintenance expenses		(6,261)	(9,944)
Write-off expenses/reversals of non-current assets		(790)	(790)
Other expenses		(28,179)	(12,739)
<b>Total operating expenses</b>		<b>(215,832)</b>	<b>(195,921)</b>
<b>OPERATING (LOSS)</b>		<b>(6,690)</b>	<b>(6,341)</b>
Finance income		1,360	1,240
Finance (costs)		(9)	(4)
Share of results of activities of associates and joint ventures		730	-
		2,081	1,236
<b>(LOSS) BEFORE INCOME TAX</b>		<b>(4,609)</b>	<b>(5,105)</b>
Current year income tax expense		(18,782)	(18,579)
Deferred income tax income		19,303	19,220
		521	641
<b>(LOSS) FOR THE PERIOD</b>		<b>(4,088)</b>	<b>(4,464)</b>
<b>(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Owners of the Company		(4,088)	(4,464)
Non-controlling interest		-	-
		<b>(4,088)</b>	<b>(4,464)</b>
<b>TOTAL COMPREHENSIVE (LOSS) FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Owners of the Company		(4,088)	(4,464)
Non-controlling interest		-	-
		<b>(4,088)</b>	<b>(4,464)</b>
<b>Basic and diluted (deficit) per share (in LTL)</b>		<b>(0.01)</b>	-

The accompanying notes form an integral part of this condensed interim financial information.

LITGRID AB

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

**INTERIM STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)**

	<b>Note</b>	<b>Group April-June 2011</b>	<b>Company April-June 2011</b>
		(unaudited)	(unaudited)
<b>Revenue</b>			
Sales revenue		85,917	85,879
Other operating income		14,744	1,331
		<b>100,661</b>	<b>87,210</b>
<b>Operating expenses</b>			
Depreciation and amortisation		(33,467)	(33,189)
Purchase of electricity or related services		(23,749)	(24,352)
Purchase of capacity reserves		(15,274)	(15,274)
Salaries and related expenses		(9,103)	(4,377)
Transit expenses		(5,052)	(5,052)
Write-off expenses of non-current assets		(306)	(306)
Repair and maintenance expenses		(71)	(3,409)
Other expenses		(19,458)	(6,483)
<b>Total operating expenses</b>		<b>(106,480)</b>	<b>(92,442)</b>
<b>OPERATING (LOSS)</b>		<b>(5,819)</b>	<b>(5,232)</b>
Finance income		718	648
Finance (costs)		(7)	(2)
Share of results of activities of associates and joint ventures		206	-
		917	646
<b>(LOSS) BEFORE INCOME TAX</b>		<b>(4,902)</b>	<b>(4,586)</b>
Current year income tax expense		(10,147)	(10,023)
Deferred income tax income		10,821	10,709
		674	686
<b>(LOSS) FOR THE PERIOD</b>		<b>(4,228)</b>	<b>(3,900)</b>
<b>Other comprehensive income</b>			
Other comprehensive loss, net of deferred income tax		(5)	-
<b>TOTAL COMPREHENSIVE (LOSS) FOR THE PERIOD</b>		<b>(4,233)</b>	<b>(3,900)</b>
<b>(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Owners of the Company		(4,242)	(3,900)
Non-controlling interest		14	-
		<b>(4,228)</b>	<b>(3,900)</b>
<b>TOTAL COMPREHENSIVE (LOSS) FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Owners of the Company		(4,247)	(3,900)
Non-controlling interest		14	-
		<b>(4,233)</b>	<b>(3,900)</b>
<b>Basic and diluted (deficit) per share (in LTL)</b>		<b>(0.01)</b>	<b>-</b>

The accompanying notes form an integral part of this condensed interim financial information.





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

INTERIM STATEMENTS OF CHANGES IN EQUITY  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

Group	Note	Equity attributable to owners of the Company							Non-controlling interest	Total equity
		Share capital	Share premium	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total		
<b>Balances at 31 December 2010</b>		<b>504,331</b>	<b>29,621</b>	<b>296,353</b>	<b>47,730</b>	-	<b>1,047,454</b>	<b>1,925,489</b>	<b>3,359</b>	<b>1,928,848</b>
Adjustment made in relation to changes in accounting policies	3.7	-	-	-	-	-	(5,736)	(5,736)	-	(5,736)
<b>Balances at 31 December 2010 (restated)</b>		<b>504,331</b>	<b>29,621</b>	<b>296,353</b>	<b>47,730</b>	-	<b>1,041,718</b>	<b>1,919,753</b>	<b>3,359</b>	<b>1,923,112</b>
Merger of associates		-	-	-	-	-	(1,638)	(1,638)	-	(1,638)
Decrease in interest in the subsidiary		-	-	-	-	-	(92)	(92)	352	260
Depreciation of revaluation reserve and amounts written off		-	-	(13,025)	-	-	13,025	-	-	-
Transfers to reserves	1	-	-	-	2,747	979,738	(982,485)	-	-	-
Total comprehensive (loss)		-	-	-	-	-	(4,088)	(4,088)	-	(4,088)
Deferred income tax arising from business combinations		-	-	-	-	-	10	10	-	10
<b>Balances at 30 June 2011</b>		<b>504,331</b>	<b>29,621</b>	<b>283,328</b>	<b>50,477</b>	<b>979,738</b>	<b>66,450</b>	<b>1,913,945</b>	<b>3,711</b>	<b>1,917,656</b>

The accompanying notes form an integral part of this condensed interim financial information.

LITGRID AB

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

INTERIM STATEMENTS OF CHANGES IN EQUITY  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

Company	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total
<b>Balances at 31 December 2010</b>		<b>504,331</b>	<b>29,621</b>	<b>296,353</b>	<b>47,665</b>	-	<b>982,423</b>	<b>1,860,393</b>
Merger of subsidiary	11	-	-	-	-	-	69,388	69,388
Adjustment made in relation to changes in accounting policies	3.7, 11	-	-	-	-	-	(5,736)	(5,736)
<b>Balances at 31 December 2010 (restated)</b>		<b>504,331</b>	<b>29,621</b>	<b>296,353</b>	<b>47,665</b>	-	<b>1,046,075</b>	<b>1,924,045</b>
Depreciation of revaluation reserve and amounts written off		-	-	(13,025)	-	-	13,025	-
Transfers to reserves	1	-	-	-	2,768	979,654	(982,422)	-
Total comprehensive (loss)		-	-	-	-	-	(4,464)	(4,464)
<b>Balances at 30 June 2011</b>		<b>504,331</b>	<b>29,621</b>	<b>283,328</b>	<b>50,433</b>	<b>979,654</b>	<b>72,213</b>	<b>1,919,580</b>

The accompanying notes form an integral part of this condensed interim financial information.

LITGRID AB

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

INTERIM STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011

(All amounts in LTL thousands unless otherwise stated)

	Note	Group January-June 2011 (unaudited)	Company January-June 2011 (unaudited)
<b>Cash flows from operating activities</b>			
(Loss) for the period		(4,088)	(4,464)
<b>Adjustments for non-cash items:</b>			
Depreciation and amortisation expenses	4,5,6	67,898	67,337
Share of profit of associates and joint ventures		(730)	-
Income tax expenses		18,782	18,580
Change in deferred income tax liability		(19,303)	(19,220)
(Income) from grants		(949)	(949)
Loss on write-off of property, plant and equipment	5	804	803
Elimination of results of financing and investing activities:			
- Interest (income)		(1,128)	(1,008)
- Other finance costs		4	-
<b>Changes in working capital</b>			
(Increase) decrease in trade receivables and other amounts receivable		40,844	24,475
(Increase) decrease in inventories and prepayments		(694)	(3,092)
Increase (decrease) in accounts payable and advance amounts received		(7,831)	13,455
<b>Cash generated from operating activities</b>		<b>93,609</b>	<b>95,917</b>
Income tax paid		(3,963)	(3,960)
<b>Net cash generated from operating activities</b>		<b>89,646</b>	<b>91,957</b>
<b>Cash flows from investing activities</b>			
(Purchase) of property, plant and equipment and intangible assets		(109,186)	(109,670)
Interest received		597	477
Term deposits		(56,999)	(56,999)
Grants received		49,390	49,390
Decrease in interest in the subsidiary		260	-
Increases (decreases) in other cash flows from investing activities		(4)	-
<b>Net cash used in investing activities</b>		<b>(115,942)</b>	<b>(116,802)</b>
<b>Net (decrease) in cash flows</b>		<b>(26,296)</b>	<b>(24,845)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>75,664</b>	<b>65,152</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>49,368</b>	<b>40,307</b>

The accompanying notes form an integral part of this condensed interim financial information.

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

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

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**1. General information**

LITGRID AB (the name of the company was LITGRID Turtas AB until 14 March 2011) is a public company registered in the Republic of Lithuania. The address of its registered office is: A. Juozapavičiaus g. 13, LT-09311, Vilnius, Lithuania. LITGRID AB (hereinafter "the Company") is a limited liability profit-making entity registered with the Register of Legal Entities managed by the public Institution Registrų Centras on 16 November 2010. The Company's code is 302564383; VAT payer's code is LT100005748413.

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

The principal activities of the Company include ensuring the stability and reliability of electric power system in the territory of Lithuania within its areas of competence, creation of objective and non-discriminatory conditions for the use of the transmission networks, management, use and disposal of electricity transmission system assets and its appurtenances, management of companies engaged in transmission trading and market operator's activities including management of companies owing electricity interconnections with other countries or those that develop, manage, use or dispose them.

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

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

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

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

On 24 January 2011, the extraordinary general meeting of shareholders of the Company was convened where shareholders of the Company approved the terms and conditions of reorganisation of LITGRID Turtas AB and LITGRID AB and resolved to reorganise LITGRID Turtas AB and LITGRID AB by way of merger pursuant to paragraph 3 of Article 2.97 of the Lithuanian Civil Code and reorganisation terms and conditions of LITGRID Turtas AB and LITGRID AB by merging LITGRID AB, which ceases its activities after the reorganisation, with LITGRID Turtas AB, which continues its activities after the reorganisation and to which all assets, rights and obligations of LITGRID AB will be transferred. For detail information of the merger with subsidiary LITGRID AB is presented in Note 11.

On 24 February 2011, the Company was granted a license of the electricity transmission system operator the validity of which commenced after the merger of the companies on 1 March, i.e. after the expiry of the validity of the license of the subsidiary.

On 14 March 2011, a new version of the Articles of Association of LITGRID AB was registered with the Register of Legal Entities and the name of the company LITGRID Turtas AB was changed to LITGRID AB.

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

**1. General information (continued)**

As at 30 June 2011 and 31 December 2010, the authorised share capital of the Company amounted to LTL 504,331,380 and was divided into 504,331,380 ordinary registered shares with par value of LTL 1 per share. All shares are fully paid.

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

In April 2011 following decision of general meeting of shareholders of the Company, LTL 979,654 thousand of retained earnings were transferred to other reserves.

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

This condensed interim financial information includes the consolidated financial information of the Group and the separate financial information of the Company for the six month period ended 30 June 2011.

As of the date of this financial information the Group included LITGRID AB and its directly controlled subsidiaries, which are listed below.

Company	Address of the registered office	Shareholding of the Group at 30 June 2011	Share capital at 30 June 2011	Profit/ (loss) for 2011	Equity at 30 June 2011	Principal activities
BALTPool UAB	A. Juozapavičiaus g. 13, Vilnius	67 %	474	447	1,151	Activities related to the electricity market operator
TETAS UAB	Senamiesčio g. 102B, Panevėžys	61 %	5,651	249	8,571	Transformer substation, distribution station design, construction, repair and maintenance services

The structure of the Group's investments in the associates and the joint venture as at 30 June 2011 is as follows:

Company	Address of the registered office	Shareholding of the Group at 30 June 2011	Share capital at 30 June 2011	Principal activities
Technologijų ir Inovacijų Centras UAB	Žvejų g. 14, Vilnius	35 %	44,350	IT services
Elektros Tinklo Paslaugos UAB	Motorų g. 2, Vilnius	29 %	16,388	Power network and related equipment repair, maintenance and construction services
LitPol Link Sp.z.o.o	Wojciecha Gorskiego 900-033 Warsaw, Poland	50 %	1,725	Designing of electricity transmission interconnection facilities

There were 621 employees in the Group as at 30 June 2011 (618 as at 31 December 2010), 206 employees in the Company as at 30 June 2011 (210 employees as at 31 December 2010).

LITGRID AB

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

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## **2. Basis of preparation**

This Company's and consolidated Group's condensed interim financial information for the six month period ended 30 June 2011 has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34, 'Interim financial reporting'). This financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial year of the Company and other Group companies coincides with the calendar year.

## **3. Accounting policies**

Except as described below, the accounting policies and calculation methods applied in the preparation of this condensed interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2010. These policies have been consistently applied to all the periods presented.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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

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

The Company/Group started to apply this standard from the financial period which started on 1 January 2011. The standard was applied retrospectively. The amended standard does not require government-related entities to disclose transactions and balances arising from these transactions, including off-balance sheet liabilities, conducted with the state or state related companies. The adoption of the standard did not significantly affect the disclosure of transactions with related parties and balances arising from these transactions in the condensed interim financial information.

**Improvements to International Financial Reporting Standards** (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011). Improvements did not have a significant impact on the Company's/Group's condensed interim financial information.

### **3.2 New or revised standards effective in 2011 but not relevant to the Group and the Company**

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

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

**IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.**

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

### **3.3 New or revised standards and interpretations that are mandatory for the Group's and Company's accounting periods beginning on or after 1 July 2011 or later periods and which the Group and Company have not early adopted**

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

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

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**3. Accounting policies (continued)**

**3.3 New or revised standards and interpretations that are mandatory for the Group's and Company's accounting periods beginning on or after 1 July 2011 or later periods and which the Group and Company have not early adopted**

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

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

#### **3.4 Business combinations**

IFRS 3, 'Business combinations' is not applied to acquisitions of subsidiaries between jointly controlled entities, therefore such acquisitions were recognised using predecessor accounting. The Group did not restate assets and liabilities to their fair value as at the acquisition date, instead the Group combined the acquired assets and liabilities at their carrying amounts. No goodwill arises in predecessor accounting and the consolidated financial statements incorporate the combined companies' results as if the combined entity had always existed. A combination of businesses under common control is also accounted for as if the combined entity had always existed.

#### **3.5 Grants**

##### Asset-related grants

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

#### **3.6 Income and expense recognition**

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

PSO service fees are the fees paid to the suppliers of electricity under the public service obligations scheme (based on annual quantities and prices of services established in advance). These fees are collected from customers, i.e. the distribution system operator and end users connected to the transmission network, using the tariff for PSO services established by the Commission.

PSO services are rendered under the PSO scheme approved by Order No. 1-283 of 8 October 2010 of the Minister of Energy of the Republic of Lithuania. Under the PSO scheme the Company/Group, a transmission system operator, acts as an administrator of PSO service fees. By collecting and disbursing PSO service fees the Company/Group acts only as an agent.

If in the previous calendar year fees collected by the Company/Group from customers for PSO services exceeded or were less than the actual payments for PSO services, the difference needs to be taken into account by the Commission when setting the tariff for PSO services for the next year. The Company/Group receives an approved fixed portion of the PSO service tariff revenue that is allocated for the compensation of expenses related to the administration of PSO service fees and PSO service fees for PSO services provided, i.e. the balancing of electricity produced using renewable energy sources.

In order to fairly present the administration of PSO service fees the Company/Group has made changes in the accounting policy of PSO service fees from January 2011. Currently, only a fee for PSO administration services and PSO service fees received for the compensation of expenses incurred for the balancing of electricity produced using renewable energy sources are recognised as income by the Company/Group. A difference between PSO service fees collected and disbursed is recognised in the Company's/Group's accounts receivable (payable).

#### **3.7 Change in accounting policies. Restatement of comparatives**

Until 2011 PSO service fees received by the Company/Group were recorded as income earned and PSO service fees disbursed as expenses incurred.

In performing PSO-related activities the Company/Group acts only as an agent on behalf of the Commission/Government and these activities do not generate revenue/profit for the Company/Group in the normal course of business. A resolution has been passed by the Lithuanian Government which stipulates that the Company/Group acts only as an administrator/agent and the Company/Group and the Commission have separate systems to track these transactions.

Seeking to improve the disclosure of the Company's/Group's financial position, financial performance and cash flows and reflect the actual substance of PSO administration activities, in 2011 management decided to make changes in the accounting policy applied to PSO service fees being administered.



NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

### 3. Accounting policies (continued)

#### 3.7 Change in accounting policies. Restatement of comparatives (continued)

Given that the Company/Group acts only as an intermediary on behalf of the Commission/Government, revenues from the collection of tariffs from customers are netted against the disbursements to the electricity generators in the statement of comprehensive income. Only the amount of PSO service fees as approved by the Government in advance that is received for PSO services rendered and for PSO administration services is recognised as income by the Company/Group. A difference between PSO service fees received and disbursed is recognised in accounts receivable (payable).

The Company/Group changed its accounting policy for PSO service fees being administered and applied the changes retrospectively. In accordance with IAS 8, 'Accounting policies, changes in accounting estimates and errors' when changes in the accounting policies are applied retrospectively the Company/Group is required to adjust the opening balance of each affected item of equity at the beginning of the earliest reporting period presented as well as comparative figures of all other prior reporting periods presented as if the new accounting policy had always been applied.

Information about the effect of changes in the accounting policy on the Group's assets, liabilities, equity as at 31 December 2010 is given below.

Group	At 31 December 2010 (previously reported)	Adjustment to PSO service fees	At 31 December 2010 (restated)
<b>Current assets</b>			
Trade receivables	139,485	4,759	144,244
<b>TOTAL ASSETS</b>	<b>2,361,393</b>	<b>4,759</b>	<b>2,366,152</b>
<b>Capital and reserves</b>			
Retained earnings (deficit)	1,047,454	(5,736)	1,041,718
<b>Non-current liabilities</b>			
Deferred income tax liabilities	193,627	(1,012)	192,615
<b>Current liabilities</b>			
Trade payables	134,330	11,507	145,837
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,361,393</b>	<b>4,759</b>	<b>2,366,152</b>

Information about the effect of changes in the accounting policy on the Company's assets, liabilities, equity as at 31 December 2010 is presented in Note 11.

#### 3.8 Critical accounting estimates and judgments

The preparation of financial information in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. The areas where estimates are significant to this financial information include fair value measurement and depreciation of property, plant and equipment and investment property, evaluation of impairment for accounts receivable and investments and percentage of completion evaluation for repair service contracts. Future events may cause the assumptions used in arriving at the estimates to change. The effect of such changes in the estimates will be recorded in the financial statements when determined. Accounting estimates applied in preparing the condensed interim financial information are consistent with those that were applied in preparing the annual financial statements.

##### Tax audits

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

##### Depreciation rates of property, plant and equipment

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

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

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### 3. Accounting policies (continued)

#### 3.8 Critical accounting estimates and judgments (continued)

##### Revaluation of property, plant and equipment

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

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

##### Impairment of property, plant and equipment

The Group and the Company make an assessment, at least annually, whether there are any indicators that the book value of property, plant and equipment has been impaired. If that is the case, the Group and the Company make an impairment test.

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

If the value of assets is measured 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. The value of property, plant and equipment should be reduced if its carrying value in the statement of financial position is higher than either its value in use or fair value less cost to sell. In other words, this means that the carrying amount of property, plant and equipment shown in the statement of financial position should be written down to the higher of either the current value of the future benefits that would be derived by the Group and Company from the continued use of the assets or the proceeds it would derive from the asset's immediate retirement and disposal.

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

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

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

Management believes that the aforementioned amendments to regulatory legislation may have a significant negative impact on fair value of property, plant and equipment. Due to the reasons specified, values of property, plant and equipment reported in these financial statements may materially differ from those that would be determined if the valuation of assets was performed by independent valuers as required by International Valuation and Accounting Standards. It is probable that such valuation would have a negative effect on the results of the Company' and Group's activities and the shareholders' equity reported in the financial statements for the year 2010 and 2011.

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

#### **3.8 Critical accounting estimates and judgments (continued)**

Valuation of fair values of property, plant and equipment as at 31 December 2010 and 30 June 2011 was not performed by Independent valuers, as the mentioned amendments to regulatory legislation came into force only from 1 January 2010 and the impact of these amendments on the Group's and the Company's ability to earn income in future periods cannot be reliably estimated.

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

Since the shares of the subsidiaries and associated entities are not listed, the Group/Company estimated the recoverable value of these investments based on the carrying value of the Group's/Company's share of the subsidiary's/associate's net assets, which approximates its fair value as at 30 June 2011 based on the judgement of management.

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

As at the date of these financial statements, there was no significant risk that the book amount of assets and liabilities will be subject to important corrections in the next accounting year due to changes in management's assumptions and estimates, except for the adjustments which might be needed due to uncertainties in respect of the determination of the value of property, plant and equipment used in licensed activities as at 30 June 2011, as described above.

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

#### 4. Intangible assets

The structure of the Group's intangible assets is as follows:

Group	Patents and licenses	Computer software	Other intangible assets	Total
<b>Net book amount at 31 December 2010</b>	-	<b>1,722</b>	<b>28</b>	<b>1,750</b>
Additions	-	7	-	7
Amortisation charge	-	(299)	(4)	(303)
<b>Net book amount at 30 June 2011</b>	-	<b>1,430</b>	<b>24</b>	<b>1,454</b>
Cost	1	4,497	34	4,532
Accumulated amortisation	(1)	(3,067)	(10)	(3,078)
<b>Net book amount at 30 June 2011</b>	-	<b>1,430</b>	<b>24</b>	<b>1,454</b>

The structure of the Company's intangible assets is as follows:

Company	Patents and licenses	Computer software	Other intangible assets	Total
<b>Net book amount at 31 December 2010</b>	-	<b>1,675</b>	<b>28</b>	<b>1,703</b>
Amortisation charge	-	(289)	(4)	(293)
<b>Net book amount at 30 June 2011</b>	-	<b>1,386</b>	<b>24</b>	<b>1,410</b>
Cost	1	4,438	34	4,473
Accumulated amortisation	(1)	(3,052)	(10)	(3,063)
<b>Net book amount at 30 June 2011</b>	-	<b>1,386</b>	<b>24</b>	<b>1,410</b>

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

**5. Property, plant and equipment**

The structure of the Group's property, plant and equipment is as follows:

Group	Land	Buildings	Structures and machinery	Motor vehicles	Other PP&E	Construction in progress	Total
<b>Net book amount at 31 December 2010</b>	<b>1,961</b>	<b>35,820</b>	<b>1,943,993</b>	<b>1,829</b>	<b>45,563</b>	<b>34,285</b>	<b>2,063,451</b>
Additions	-	-	42	122	185	25,567	25,916
Write-offs	-	(1)	(797)	-	(6)	-	(804)
Reclassification between groups	-	-	3,282	-	(420)	(2,862)	-
Depreciation charge	-	(1,150)	(61,674)	(235)	(4,527)	-	(67,586)
<b>Net book amount at 30 June 2011</b>	<b>1,961</b>	<b>34,669</b>	<b>1,884,846</b>	<b>1,717</b>	<b>40,794</b>	<b>56,990</b>	<b>2,020,977</b>
Cost or revaluated amount	1,961	38,067	2,063,155	2,262	86,126	56,990	2,248,561
Accumulated depreciation	-	(3,253)	(177,084)	(545)	(45,332)	-	(226,214)
Accumulated impairment	-	(145)	(1,225)	-	-	-	(1,370)
<b>Net book amount</b>	<b>1,961</b>	<b>34,669</b>	<b>1,884,846</b>	<b>1,717</b>	<b>40,794</b>	<b>56,990</b>	<b>2,020,977</b>

The structure of the Company's property, plant and equipment is as follows:

Company	Land	Buildings	Structures and machinery	Motor vehicles	Other PP&E	Construction in progress	Total
<b>Net book amount at 31 December 2010</b>	<b>1,961</b>	<b>34,968</b>	<b>1,943,758</b>	-	<b>43,606</b>	<b>34,686</b>	<b>2,058,979</b>
Additions	-	-	-	-	119	26,288	26,407
Write-offs	-	(1)	(797)	-	(5)	-	(803)
Reclassification between groups	-	-	3,282	-	(420)	(2,862)	-
Depreciation charge	-	(1,115)	(61,652)	-	(4,268)	-	(67,035)
<b>Net book amount at 30 June 2011</b>	<b>1,961</b>	<b>33,852</b>	<b>1,884,591</b>	-	<b>39,032</b>	<b>58,112</b>	<b>2,017,548</b>
Cost or revaluated amount	1,961	37,013	2,062,739	29	83,421	58,112	2,243,275
Accumulated depreciation	-	(3,016)	(176,923)	(29)	(44,389)	-	(224,357)
Accumulated impairment	-	(145)	(1,225)	-	-	-	(1,370)
<b>Net book amount</b>	<b>1,961</b>	<b>33,852</b>	<b>1,884,591</b>	-	<b>39,032</b>	<b>58,112</b>	<b>2,017,548</b>

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

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

As at 30 June 2011 and 31 December 2010, the Group/Company had significant contractual obligations to purchase property, plant and equipment, which have to be fulfilled in future periods.

	At 30 June 2011	At 31 December 2010
Interconnection between the electricity transmission systems of Lithuania and Sweden (NORDBALT)	620,983	707,041
Transformer substations	80,478	82,553
Interconnection between the electricity transmission systems of Lithuania and Poland (LitPolLink)	2,466	2,457
Other	938	10,336
<b>Total</b>	<b>704,865</b>	<b>802,387</b>

### 6. Investment property

	Group	Company
<b>Net book amount at 31 December 2010</b>	<b>668</b>	<b>668</b>
Depreciation charge	(9)	(9)
<b>Net book amount at 30 June 2011</b>	<b>659</b>	<b>659</b>
<b>At 30 June 2011</b>		
Cost	816	816
Accumulated depreciation	(157)	(157)
<b>Net book amount at 30 June 2011</b>	<b>659</b>	<b>659</b>

As estimated by the Company and based on observable market data, the fair value of the investment property of the Group and the Company as at 30 June 2011 approximates its carrying amount.

The Group's and the Company's income from lease of investment property amounted to LTL 81 thousand during the period of January to June 2011.

### 7. Grants

The grants balance consists of grants related to the financing of assets acquisition. Movements on grants in 2011 are as follows:

	Group	Company
<b>Balance at 31 December 2010</b>	42,349	42,349
Received during the period	49,390	49,390
Utilised during the period	(949)	(949)
<b>Balance at 30 June 2011</b>	<b>90,790</b>	<b>90,790</b>

Grants received during the period included financing received from the EU Structural Funds (LTL 3,375 thousand) and PSO service fees received for the implementation of strategic projects (LTL 46,015 thousand).

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011

(All amounts in LTL thousands unless otherwise stated)

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## 8. Segment information

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

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

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

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

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

The capacity reserve is used in extreme conditions when the generation of electricity declines or its consumption increases. The Company is responsible for the control and management of capacity reserves of all types and additional services.

PSO services are rendered under the PSO scheme approved by Order No. 1-283 of 8 October 2010 of the Minister of Energy of the Republic of Lithuania. Under the PSO scheme the Company/Group, a transmission system operator, acts as an administrator of PSO service fees. By collecting and disbursing PSO service fees the Company/Group acts only as an agent. In order to fairly present the administration of PSO service fees the Company/Group has made changes in the accounting policy of PSO service fees from January 2011. Currently, only a fee for PSO administration services and PSO service fees for the compensation of expenses incurred for the balancing of electricity produced using renewable energy sources are recognised as income by the Company/Group. Details on changes in the accounting policy are presented in Note 3.7.

In 2010, the Group distinguished a business segment 'Other products (services) of the transmission system operator'. Starting from 2011, the Group's management analyses this business segment along with the electricity transmission segment. In the financial statements for 2011 this segment is presented as a part of the electricity transmission segment.

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

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

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

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

The table below shows the Group's information on segments for the period ended 30 June 2011.

Business segments generating revenue from external sales									
2011	Trans- mission system operator	Including:				Activities of market operator	Other activities	Other inter- segment elimina- tions	Total
		Trans- mission	Trade in balancing/ regulating electricity	Sales of capacity reserve services	Public service obligations electricity sale				
Revenue	189,580	116,698	39,274	28,255	5,353	1,259	24,104	-	214,943
Inter-segment revenue	(1,323)	(1,323)	-	-	-	-	(4,478)	-	(5,801)
Revenue, net of inter-segment revenue	188,257	115,375	39,274	28,255	5,353	1,259	19,626	-	209,142
Expenses	195,921	129,094	30,623	30,851	5,353	847	24,144	-	220,912
Inter-segment expenses	(1,323)	(1,323)	-	-	-	-	(4,478)	721	(5,080)
Expenses, net of inter-segment expenses	194,598	127,771	30,623	30,851	5,353	847	19,666	721	215,832
Operating profit (loss)	(6,341)	(12,396)	8,651	(2,596)	-	412	(40)	(721)	(6,690)
Depreciation and amortisation expenses	66,387	66,387	-	-	-	1	561	-	66,949
Loss on revaluation of property, plant and equipment	-	-	-	-	-	-	-	-	-
Net finance income (costs)									2,081
Profit (loss) before income tax									(4,609)
Income tax									521
Profit (loss) for the period									(4,088)
Loss on revaluation of property, plant and equipment recognised in equity	-	-	-	-	-	-	-	-	-



NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

**8. Segment information (continued)**

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

In 2011, the Group's and the Company's revenue according to geographical segments was as follows:

Country	Group January – June 2011	Company January – June 2011
Lithuania	206,663	187,101
Russia	1,023	1,023
Latvia	893	893
Estonia	563	563
<b>Total</b>	<b>209,142</b>	<b>189,580</b>

All assets of the Group and the Company are located in Lithuania. During the period ended 30 June 2011, the Group's and the Company's income from one external customer amounted to LTL 131,822thousand.

**9. Related-party transactions**

The Group's transactions with related parties during the six-month period ended 30 June 2011 and the balances arising from these transactions as at 30 June 2011 are presented below.

Related parties	Trade and other payables and prepayments	Trade and other receivables	Purchases	Sales
Entities controlled by the Ministry of the Energy of the Republic of Lithuania	54,940	80,562	309,019*	650,282*
Associates of the Group	2,246	3,025	19,774	148
Parent entity of the Group (Visagino Atominė Elektrinė UAB)	-	-	-	-
<b>Total</b>	<b>57,186</b>	<b>83,587</b>	<b>328,793</b>	<b>650,430</b>

\*As described in the section on accounting policies the Group does not recognise income and expenses from sales and purchases of PSO service fees being administered. In 2011, PSO service fees received by the Group from related parties amounted to LTL 261,654 thousand and PSO service fees disbursed to related parties amounted to LTL 143,821 thousand. According to the Group's accounting policies, BALTPPOOL UAB does not recognise income and expenses from transmission trading transactions. In the period of January to June 2011, BALTPPOOL UAB purchased electricity from related parties for LTL 107,265 thousand and sold electricity to related parties for LTL 243,630 thousand.

The Company's transactions with related parties during the six-month period ended 30 June 2011 and the balances arising from these transactions as at 30 June 2011 are presented below.

Related parties	Trade and other payables and prepayments	Trade and other receivables	Purchases	Sales
Entities controlled by the Ministry of the Energy of the Republic of Lithuania	53,674	69,242	198,975*	393,531*
Associates of the Company	5,186	619	12,455	1,318
Subsidiaries of the Company	2,086	3,025	19,535	112
Parent entity of the Group (Visagino Atominė Elektrinė UAB)	-	-	-	-
<b>Total</b>	<b>60,946</b>	<b>72,886</b>	<b>230,965</b>	<b>394,961</b>

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

**9. Related-party transactions (continued)**

\*As described in the section on accounting policies the Company does not recognise income and expenses from sales and purchases of PSO service fees being administered. In 2011, PSO service fees received by the Company from related parties amounted to LTL 261,654 thousand and PSO service fees disbursed to related parties amounted to LTL 143,821 thousand.

The following table presents the Group's balances arising from transactions with related parties as at 31 December 2010.

<b>Related parties</b>	<b>Trade and other payables and prepayments</b>	<b>Trade and other receivables</b>
Entities controlled by the Ministry of the Energy of the Republic of Lithuania	68,407	125,684
Associates of the Group	2,835	706
Parent entity of the Group (Visagino Atominė Elektrinė UAB)	-	-
<b>Total</b>	<b>71,242</b>	<b>126,390</b>

The following table presents the Company's balances arising from transactions with related parties as at 31 December 2010.

<b>Related parties</b>	<b>Trade and other payables and prepayments</b>	<b>Trade and other receivables</b>
Entities controlled by the Ministry of the Energy of the Republic of Lithuania	61,517	101,283
Associates of the Company	2,526	124
Subsidiaries of the Company	1,811	27
Parent entity of the Group	-	-
<b>Total</b>	<b>65,854</b>	<b>101,434</b>

The major related-party sale and purchase transactions in 2011 represented transactions with the entities controlled by the Ministry of Energy of the Republic of Lithuania: LESTO AB and Lietuvos Elektrinė AB. The Group mainly purchased electricity, a capacity reserve service and PSO services from these entities. Sales transactions mainly included sales of electricity, a capacity reserve service, electricity transmission services and PSO services.

**Payments to key management personnel**

	<b>Group January - June 2011</b>	<b>Company January - June 2011</b>
Employment-related payments	633	180
Termination benefits	92	-
Other material amounts calculated for key management personnel	-	-
Number of key management personnel	7	2

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

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

**10. Basic and diluted earnings (deficit) per share**

In 2011, basic and diluted (deficit) per share was as follows:

	<b>January - June 2011</b>
Net (loss) attributable to the Group's shareholders (LTL thousands)	(4,088)
Weighted average number of shares (units)	<u>504,331</u>
<b>Basic and diluted (deficit) per share (in LTL)</b>	<b><u>(0.01)</u></b>

**11. Business combinations**

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

A combination of businesses under common control is accounted for as if the combined entity had always existed. The following table presents the Company's statement of financial position as of 31 December 2010 as modified by the merger of the subsidiary and changes in the accounting policy for PSO service fees (see Note 3.7).

	<b>Company at 31 December 2010 (previously stated)</b>	<b>Adjust- ments relating to merger of the subsidiary</b>	<b>Eliminations of inter- company transactions and reclassifi- cations</b>	<b>Adjustments relating to changes in accounting policy for PSO service fees</b>	<b>Company at 31 December 2010 (restated)</b>
<b>Non-current assets</b>					
Intangible assets	515	1,188	-	-	1,703
Property, plant and equipment	2,051,554	6,510	915	-	2,058,979
Prepayments for property, plant, equipment	698	-	-	-	698
Investment property	1,583	-	(915)	-	668
Investments in subsidiaries	18,038	318	(9,748)	-	8,608
Investments in associates and joint ventures	19,032	-	2,300	-	21,332
Deferred income tax assets	-	79	-	-	79
Other financial assets	910	2,474	(2,300)	-	1,084
<b>Total non-current assets</b>	<b>2,092,330</b>	<b>10,569</b>	<b>(9,748)</b>	<b>-</b>	<b>2,093,151</b>
<b>Current assets</b>					
Inventories	1,750	1	-	-	1,751
Prepayments	57	301	-	-	358
Trade receivables	13,424	109,067	(13,424)	4,759	113,826
Other receivables	1,639	9,095	(270)	-	10,464
Term deposits	-	43,000	-	-	43,000
Cash and cash equivalents	42,161	22,991	-	-	65,152
<b>Total current assets</b>	<b>59,031</b>	<b>184,455</b>	<b>(13,694)</b>	<b>4,759</b>	<b>234,551</b>
<b>TOTAL ASSETS</b>	<b>2,151,361</b>	<b>195,024</b>	<b>(23,442)</b>	<b>4,759</b>	<b>2,327,702</b>

NOTES TO THE CONDENCED INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011  
(All amounts in LTL thousands unless otherwise stated)

**11. Business combinations (continued)**

	Company at 31 December 2010 (previously stated)	Adjust- ments relating to merger of the subsidiary	Eliminations of inter- company transactions and reclassifi- cations	Adjustments relating to changes in accounting policy for PSO service fees	Company at 31 December 2010 (restated)
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	504,331	9,748	(9,748)	-	504,331
Share premium	29,621	-	-	-	29,621
Revaluation reserve	296,353	-	-	-	296,353
Legal reserve	47,665	-	-	-	47,665
Retained earnings	982,423	69,388	-	(5,736)	1,046,075
<b>Total equity</b>	<b>1,860,393</b>	<b>79,136</b>	<b>(9,748)</b>	<b>(5,736)</b>	<b>1,924,045</b>
<b>Non-current liabilities</b>					
Grants	42,349	-	-	-	42,349
Deferred income	15,417	-	-	-	15,417
Other non-current accounts payable and liabilities	234	204	-	-	438
Deferred income tax liabilities	193,627	-	-	(1,012)	192,615
<b>Total non-current liabilities</b>	<b>251,627</b>	<b>204</b>	<b>-</b>	<b>(1,012)</b>	<b>250,819</b>
<b>Current liabilities</b>					
Trade payables	22,548	98,300	(13,694)	11,507	118,661
Advance amounts received	1,724	302	-	-	2,026
Income tax payable	321	12,341	-	-	12,662
Other amounts payable	14,748	4,741	-	-	19,489
<b>Total current liabilities</b>	<b>39,341</b>	<b>115,684</b>	<b>(13,694)</b>	<b>11,507</b>	<b>152,838</b>
<b>Total liabilities</b>	<b>290,968</b>	<b>115,888</b>	<b>(13,694)</b>	<b>10,495</b>	<b>403,657</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,151,361</b>	<b>195,024</b>	<b>(23,442)</b>	<b>4,759</b>	<b>2,327,702</b>

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

The National Control Commission for Prices and Energy resolved that the funds of LTL 479 million designated for the financing of the international electricity interconnection project NordBalt in the period of 2010–2016 will be allocated from fees collected for the provision of PSO services. In addition, LTL 226 million was allocated by the European Union. The PSO service tariff, which is included in the final price of electricity paid by consumers, is set for this year at 6.01 ct/kWh, of which 0.9 ct/kWh is allocated for the financing of strategic projects. According to the approved model, next year 0.82 ct/kWh of the PSO service tariff will be allocated for the implementation of the NordBalt project. The investment of the Swedish transmission system operator Svenska Kraftnat in the interconnection between the electricity transmission systems of Lithuania and Sweden will amount to SEK 2.3 billion. The total value of the NordBalt project is LTL 1.471 billion. The interconnection NordBalt is to be put into operation in December of 2015.

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LITGRID AB

CONSOLIDATED INTERIM REPORT FOR THE  
FIRST HALF-YEAR OF 2011

## **CONSOLIDATED INTERIM REPORT OF LITGRID AB AND ITS SUBSIDIARIES FOR THE FIRST HALF-YEAR OF 2011**

This Consolidated Interim Report of LITGRID AB (hereinafter referred to as the "Company") and its subsidiaries (the Company and its subsidiaries hereinafter referred to as the "Group")) for the first half-year of 2011 has been prepared according to Section IV, Article 24 of the Republic of Lithuania Law on Financial Statements of Companies and Section III, Article 9 of the Republic of Lithuania Law on Consolidated Financial Statements of Companies as well as resolution of the Securities Commission of the Republic of Lithuania "Concerning Approval of the Regulations on the Preparation and Submission of Periodic and Additional Information" No. 1K-3 of 23 February 2007 and resolution of the Government of the Republic of Lithuania "Concerning approval of the Guidelines on Ensuring Transparency of Companies Controlled by the State and appointment of coordinating body" No. 1052 of 14 July 2010.

### **Accounting period covered by the Consolidated Interim Report**

The Consolidated Interim Report of the Company and its subsidiaries has been prepared for the first half-year of 2011.

### **Companies forming the Group and their contact details (name, legal form, date and place of registration, business ID, registered office address (and address of place of business if different), telephone and fax numbers, email and website addresses)**

As of 30 June 2011, the Company (until 14 March 2011 the name of the Company was LITGRID turtas AB) had direct control over its subsidiaries BALTPPOOL UAB and TETAS UAB.

As of 1 January 2011, the Company held 100% of shares in LITGRID AB (company ID 302449655) and indirectly, through LITGRID AB, 100% of shares in BALTPPOOL UAB. The Company controlled Energetikos pajėgos UAB indirectly, through TETAS UAB.

At the extraordinary general meeting of shareholders held on 24 January 2011, the shareholders of the Company approved the Terms of Reorganisation of LITGRID turtas AB and LITGRID AB and decided, pursuant to Article 2.97 (3) of the Civil Code of the Republic of Lithuania and the Terms of Reorganisation of LITGRID turtas AB and LITGRID AB, to reorganise LITGRID turtas AB and LITGRID AB by the method of merger, i. e. by merging LITGRID AB, which will cease its operations as a legal person, with LITGRID turtas AB, which will continue operations after the reorganisation and which will take over all the assets, rights and liabilities of LITGRID AB. On 1 March 2011, LITGRID AB and LITGRID turtas AB executed a transfer – acceptance certificate. On the basis of this transfer – acceptance certificate, LITGRID turtas AB took over all the assets, rights and liabilities of LITGRID AB as defined in the Terms of Reorganisation of LITGRID turtas AB and LITGRID AB. On 2 March 2011, LITGRID AB was de-registered from the Register of Legal Entities. On 14 March 2011, a new version of Articles of Association of LITGRID AB was registered in the Register of Legal Entities (LITGRID turtas AB was renamed into LITGRID AB).

Continuing the process of reorganisation of power energy sector companies and seeking to ensure efficient, streamlined and optimised management of assets of Energetikos pajėgos UAB ("EP") and TETAS UAB, as well as in order to ensure more efficient use of human resources, reorganisation of TETAS UAB and EP was carried out on 1 April 2011. The reorganisation took place by merging EP with TETAS UAB by the method of merger. On 1 April 2011, the reorganisation was completed, Articles of Association of TETAS UAB were registered in the Centre of Registers, and on 6 April 2011 VĮ Registrų Centras adopted a decision on de-registering EP from the Register of Legal Entities.

On 30 June 2011, LITGRID AB held 67% of shares in BALTPPOOL UAB. The remaining 33% shares in BALTPPOOL UAB are held by Klaipėdos nafta AB. On 18 May 2011, amended Articles of Association of BALTPPOOL UAB were registered upon increase in the company's authorised capital. Upon registration of BALTPPOOL UAB's Articles of Association, Klaipėdos nafta AB completed its investment in BALTPPOOL UAB by acquiring 156,627 (one hundred fifty-six thousand six hundred twenty-seven) ordinary registered shares of BALTPPOOL UAB of LTL 1 (one Litas) par value.

For the purposes of drawing up of the consolidated financial statements for the first half-year of 2011, the Company consolidated financial statements of BALTPPOOL UAB and TETAS UAB.

The Group's contact details are provided in the table below:

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

Name	Legal form	Date and place of registration	Business ID	Registered office address	Telephone and fax No., email
LITGRID AB	Public limited liability company	2010-11-16 Register of Legal Entities of the Republic of Lithuania	302564383	A.Juozapavičiaus g.13, LT-09311, Vilnius	Tel. +370 5 278 2777 Fax +370 5 272 3986 <a href="mailto:info@litgrid.eu">info@litgrid.eu</a> <a href="http://www.litgrid.eu">www.litgrid.eu</a>
BALTPOOL UAB	Private limited liability company	2009-12-11 Register of Legal Entities of the Republic of Lithuania	302464881	A.Juozapavičiaus g.13, LT-09311, Vilnius	Tel. +370 5 278 2260 Fax +370 5 278 2707 <a href="mailto:info@baltpool.lt">info@baltpool.lt</a> <a href="http://www.baltpool.lt">www.baltpool.lt</a>
TETAS UAB	Private limited liability company	2005-12-08 Register of Legal Entities of the Republic of Lithuania	300513148	Senamiesčio g. 102B, LT-35116, Panevėžys	Tel. +370 45 504 618 Fax +370 45 504 684

Type of core activities of the Group of companies

Company	% of shares controlled by the Group	Core activities
LITGRID AB	-	Activities of a electricity transmission system operator – transmission of electricity through high-voltage grids, ensuring the balance of generation and consumption as well as stability and reliability of the electric energy system in the territory of the Republic of Lithuania, control over the companies performing market operator's functions, companies which own intersystem power links with other states or companies which develop, control, use or dispose of such links
BALTPOOL UAB	67 %	Activities of a electricity market operator
TETAS UAB	61.13 %	Specialised services of maintenance, repairs and installation, and testing of transformer substations and switchyards; designing of energy facilities.

Apart from the subsidiaries referred to above, the Group holds shares in the following companies: LitPol Link Sp.z.o.o (Poland) – 50% of shares and the votes attached thereto; Elektros tinklo paslaugos UAB – 28.87% of shares and the votes attached thereto; Technologijų ir inovacijų centras UAB – 35.14% of shares and the votes attached thereto, and NT Valdos, UAB – 0.35% of shares and the votes attached thereto.

#### Information on agreements with securities brokers

The issuer has concluded an agreement on accounting for securities of the issuer and management of individual securities accounts with Swedbank AB. The term of validity of the agreement 1 November 2011.

#### Trade in securities issued by the Group companies in regulated markets (name of regulated market, number of securities traded)

Shares of the Company are traded in NASDAQ OMX Vilnius securities exchange (hereinafter referred to as "VVPB") since 22 December 2010. The shares of the Company are listed on the VVPB Additional

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

Trading List. The Company has issued 504,331,380 ordinary registered shares of one Litas par value each (ISIN code LT0000128415).

## **Overview of position, operations and development of the Group companies. Description of main risks and uncertainties relevant to the Group companies**

### **Objectives of the Group's operations**

LITGRID is a Lithuanian electricity transmission system operator responsible for the control of the electricity flows in the country and maintaining stable operation of the power system. LITGRID is responsible for the integrity and compatibility of the power system: it ensures reliable, effective, high-quality and safe transmission of electricity, the power generation and consumption balance in Lithuania and trade in electricity generated by producers using renewable energy resources and providing public service obligation (PSO).

Mission of the Company: to ensure reliable supply of electricity and enable competition in an open electricity market.

Vision of the Company: full integration of the national electricity system into the European electricity infrastructure and common market in electricity.

On 28 March 2011, the Board of LITGRID AB approved objectives of the Company's operation for 2011 based on the long-term operating strategy of the Company:

- integration into the Synchronous Grid of Continental Europe (2020) – launching of the "Study of Options for the Connection of the Baltic States to the EU Internal Market in Electricity";
- implementation of international infrastructure links – coordinate the special plans on NordBalt and LitPol Link routes in the territory of Lithuania; conclude an agreement on implementation of LitPol Link project with PSE Operator, a Polish TSO;
- electricity market development or integration – establish a Nord Pool price zone in Lithuania; develop the power system ensuring the integration of renewable energy resources into the electricity market;
- network reliability  $END_{MPL} \leq 5$  MWh and  $AIT_{MPL} \leq 0.26$  min.;
- network optimisation – prepare, jointly with LESTO, the distribution system operator, a plan on optimisation of a 330-110 kV network;
- management efficiency: change the organisational culture by focussing on the key areas of operations – implementation of strategic projects, development and integration of electricity market and reliable system control, and organisational transformation and innovation.

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

In broad terms, operations of LITGRID AB consist of a single operating segment – activities of a transmission system operator ("TSO"). The Company plans long-term development of the power system having regard to the requirements for the reliability of supply, quality, efficiency, consumption, management and environmental protection laid down in the National Energy Strategy and improving conditions for the use of the system. As a TSO, LITGRID AB is responsible for the stability and reliability of the functioning of the power system, performance of the national balancing function, and provision of system services in the territory of the Republic of Lithuania.

In order to increase transparency of operations, the following products/services are identified in the TSO activities for the purposes of the profit and loss account:

- transmission of electricity,
- trade in balancing/regulating power,
- provision of system services (power reserving services), and
- provision of public service obligation (PSO) and administration of PSO funds.

Prices for the power transmission services, system services and PSO are regulated by the State Commission on Price and Energy Control ("the Commission"); prices for balancing power are calculated according to the procedures approved by the Commission.



LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

### *Transmission of electricity*

Transmission of electricity through high-voltage grids is the core activity of LITGRID AB. On 24 February 2011, the Commission issued to the Company a power transmission licence of undetermined duration; the licence is effective from 1 March 2011. In the period from 1 January 2011 till 1 March 2011, the TSO function was performed by LITGRID AB, subsidiary of the Company (company ID 302449655), which was de-registered from the Legal Persons Register on 2 March 2011.

No major failures have been recorded in the power system of Lithuania during the first half-year of 2011 even though, upon closure of the Ignalina Nuclear Power Plant at the end of 2009, substantial changes in the power balance has made Lithuania an electricity importer rather than exporter. This has been a serious challenge to the national energy system.

The ceilings of the prices for power transmission services are set by the Commission. According to the Methodology for the Setting of Prices for the Power Transmission and Distribution Services and Price Ceilings approved by resolution of the Commission No. O3-139 of 25 September 2009, the price ceilings are set for a three-year regulation period and are adjusted in the 2nd and 3rd year of the regulatory period using the coefficients of contingency, effect of electricity quantities, inflation and efficiency. The ceiling set by the Commission for the electricity transmission price for 2011-2013 is 2.32 ct/kWh.

Every year the Board of the Company approves the electricity transmission price for customers, which may not exceed the set ceiling. Since 2011, the approved transmission price is differentiated into the power component and the energy component. The electricity transmission price prior to differentiation, approved for 2011, is 2.32 ct/kWh.

In the first half-year of 2011, LITGRID AB as a TSO transmitted 4.62 bn kWh of electricity through high-voltage grids for the country's needs, which is 2% more than in the same period of 2010. 4.08 bn kWh were transmitted to LESTO, the distribution network operator, i. e. 0.6 % more than in the same period of 2010; to other customers 0.54 bn kWh (+ 13.6 %).

### *Provision of system (power reservation) services*

LITGRID AB ensures reliable functioning of the system and provides system services to its customers. Power reserve is necessary for the regulation of frequency and the balance in the power system flows and for the generation of power in cases of unforeseen drop in generation or rise in consumption. The Company provides this service to the customers free of charge, i. e. internal costs or profit margin of the Company is not included in the price for the system services. The following prices are set by the Commission:

- selling of power reserves of producers having over 25% of the power reserve market;
- system services provided to customers.

Non-differentiated price for system services to customers set for 2011 is 0.66 ct/kWh. In providing system services in the first half-year of 2011, the Company ordered, on average, 250 MW of secondary power reserve and 349 MW of tertiary power reserve per hour.

### *Trade in balancing/regulation power*

The TSO performs the function of national balancing of the system. LITGRID AB organises trade in the balancing power and purchases and/or sells the balancing power required for ensuring the national balance between electricity generation and consumption. Trade in balancing power is conducted according to the procedure laid down in the Regulations on Electricity Trading; the price for balancing power is set according to the Procedure for the Calculation of Purchase and Selling Price for Balancing Power approved by the Commission. A person that has concluded a balancing power sale-purchase agreement with TSO becomes a supplier of balancing power.

Trading in regulating power takes place at a regulating power auction held by TSO. Suppliers of regulating power and TSOs of other countries take part in the auction. Participants in the electricity market having technical capacities for an effective change in power generation and consumption regimes and having entered into relevant agreement with TSO can become suppliers of regulating power. TSO gives binding instructions on changes in the power generation and/or consumption regimes if the national balance of the system is not maintained during an operating hour.

LITGRID AB  
Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

### *Provision of public service obligation (PSO) and administration of PSO funds*

Public interests in the electric power sector consist of those services provided by the power sector's companies which are related to security of society including security, reliability and regularity of supply, protection of the environment, and power generation using renewable energy resources and in co-generation power plants.

PSO funds are funds paid to the PSO providers.

The conditions of provision of PSO are established in the Procedure for the Provision of Public Service Obligation ("PSO Provision Procedure") approved by order of the Minister of Energy of the Republic of Lithuania No. 1-283 of 8 October 2010. The PSO administration procedures are laid down in the Procedure for the Administration of Public Service Obligation Funds ("PSO Funds Administration Procedure") approved by resolution of the Commission No. 03-328 of 17 December 2010. The PSO prices and the PSO funds amounts are set by the Commission. The PSO Provision Procedure states that the Company as a TSO is the administrator of PSO funds, i. e. it is responsible for collection and payment of PSO funds. Payers of PSO funds (consumers of electricity) and receivers of PSO funds are specified in the PSO Provision Procedure and the PSO Funds Administration Procedure. The Company enters into agreements on collection of PSO funds with payers of these funds. Funds collected from the payers are intended for the PSO funds recipients. The Company enters into agreements on payment of PSO funds with receivers of these funds.

The Company is one of the receivers of PSO funds. PSO funds received by the Company consist of:

- PSOS funds for the preparation and implementation of strategic projects related to the increasing of energy security and the construction of intersystem links between Lithuania and Sweden and between Lithuania and Poland as well as the interconnection of the Lithuanian power system with ENTSO-E Continental European Networks;
- PSO funds intended for compensating for PSO costs and PSO funds administration expenses (operating costs):
  - PSO funds for the connection of power generation equipment using the wind, biomass, solar or hydro energy;
  - PSO funds for the balancing of power generated through the use of renewable energy resources; and
  - compensation for the funds administration expenses (operating costs).

According to the PSO Funds Administration Procedure approved by the Commission on 17 December 2010, the Company acts as an intermediary in the PSO funds administration, collection and payment. In 2011, the approved PSO price for customers was 6.01ct/kWh.

### *Services of maintenance, repairs and designing of transmission network equipment*

TETAS UAB, a subsidiary of LITGRID AB:

- performs maintenance and repairs of electrical equipment of power grids;
- provides the services of construction of new and reconstruction of present energy facilities;
- provides the services of designing of electrical equipment.

The Quality Management and Environmental Management System ("the Management System") was implemented in the company in 2007 and is applied in the operation of electrical equipment up to 400 kV and carrying the structural design and construction works in the projects on construction of extraordinary structures.

### *Market operator services*

Seeking to establish free Lithuanian electricity market on December 4 2009 LITGRID AB registered the subsidiary company BALTPOOL UAB; on 28 December 2009 it was granted a license of electricity market operator.

Establishment of the Lithuanian Electricity Exchange administered by BALTPOOL UAB was a significant step toward creating an effective Lithuanian electricity market as part of the common electricity market of the Baltic Sea Region and the Continental Europe. The emergence of an organised and functioning

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

market in electricity ensures an effective use of the present infrastructure and publicity of objective prices for electricity. The electricity price level in a liquid regulated market is one of the best indicators in the assessment of both necessity and benefit of strategic infrastructure projects, while the electricity supply and demand ratio prevailing in an exchange is a clear signal for investors in attracting investments for the development of new generation sources.

International trading takes place in the Lithuanian Electricity Exchange administered by BALTPPOOL UAB. Participants in the exchange include producers and suppliers from both Lithuanian and neighbouring energy systems trading in electricity generated in or imported to Lithuania. Electricity is bought for use in Lithuania or for export to the neighbouring energy systems.

The main function of BALTPPOOL UAB consists in the organisation of electricity trade. The market operator:

- registers bilateral agreements between participants in wholesale market;
- collects orders on auction trading in electricity and sets the sequence of realisation;
- registers transactions under bilateral agreements and auction transactions;
- presents the results of electricity trade to market participants and regulatory authorities;
- organises settlements between market participants.

Wholesale trade in electricity under administration of BALTPPOOL UAB is carried out by two methods: trading in the Lithuanian Electricity Exchange and under bilateral contracts between producers and suppliers. BALTPPOOL UAB administers wholesale trade in the Exchange in collaboration with Nord Pool Spot, an electricity exchange of Nordic countries.

The Lithuanian Electricity Exchange functions according to the principles of Nord Pool Spot. The day ahead trading principle is applied: all power supply transactions are concluded in advance, separately for each hour of the next 24-hour period.

Participants in the Exchange pay a trading volume fee. The fee is paid on a weekly basis on the quantity of electricity traded by the participant in the past week. The trading volume fee is established in Annex 6 "Trading Fees" to the Regulations of the Lithuanian Electricity Exchange. The current trading volume fee is EUR 0.03 per MWh of electricity sold or bought on the Exchange, i.e. slightly over 0.01 ct/kWh.

BALTPPOOL UAB provides services to the transmission and distribution system operators and electricity producers and suppliers.

The total volume of trade on the Lithuanian Electricity Exchange in the first half-year of 2011 amounted to 3 815 m kWh.

### **Customers of the Transmission System Operator. Main Customer Groups**

According to the services provided/supplied, customers of LITGRID AB can be grouped as follows:

#### *Users of transmission network:*

- distribution network operators – LESTO AB, E TINKLAS UAB;
- producers – Vilniaus energija UAB, Kauno termofikacijos elektrinė UAB, Kauno energija AB, Panevėžio energija AB, Lietuvos energija AB, Lietuvos elektrinė AB, power plants/farms using renewable energy resources and supplying electricity to the TSO's transmission network;
- customer – legal persons whose equipment is connected to the TSO's transmission network and which buy electricity for own consumption – such as Acherna AB, Akmenės cementas AB, Kauno vandenys AB, Korelita UAB, Lifosa AB, ORLEN Lietuva AB, State Enterprise Ignalina Nuclear Power Plant, SPAB Lietuvos geležinkeliai" (Lithuanian Railways) etc.

#### *Suppliers of balancing power:*

- producers – Vilniaus energija UAB, Kauno termofikacijos elektrinė UAB, Kauno energija AB, Panevėžio energija AB, Lietuvos energija AB, Lietuvos elektrinė AB;

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

- suppliers – Enefit UAB, Inter Rao Lietuva UAB, Latvenergo prekyba UAB, Imlitex UAB, Baltic Energy Partners UAB, Lifosa UAB, ORLEN Lietuva AB, Energijos kodas UAB, Marisa UAB, Korelita UAB etc.

As of 30 June 30 there were 22 suppliers of balancing power.

*Suppliers of reserve power:*

- producers – Vilniaus energija UAB, Kauno termofikacijos elektrinė UAB, Lietuvos energija AB, Lietuvos elektrinė AB;
- suppliers – Inter RAO Lietuva UAB, ORLEN Lietuva AB.
- foreign TSOs: Elering OÜ (Estonia), AS Augstsprieguma tīkls (Latvia), GPO Belenergo (Belarus).

### ***Investments in non-current assets***

In the first half-year of 2011, investments in assets used in the power transmission operations totalled LTL 113 m. The majority of investments were earmarked for the implementation of strategic projects, i.e. LTL 88 m or 78 % of total investments; investments in the transmission network's reconstruction and development amounted to LTL 24 m (22% of total investment). In the first half-year of 2011, reconstruction of a 110/10 kV Gargždų TS and switchyard was fully completed; part of a 110 kV transmission network of a 110/35/10 kV Kėdainių TS was reconstructed due to changes in the transmission network.

The Company concentrates its efforts on those strategic initiatives which will secure integration of the Lithuanian power system in the European power system and are critical for Lithuania's energy independence, such as:

- NordBalt Lithuanian – Swedish power link;
- LitPol Link Lithuanian – Polish power link;
- interconnection of the Lithuanian, Latvian and Estonian power networks with the Synchronous Grid of Continental Europe;
- integration into European markets for electricity;
- strengthening of Lithuania's internal power network.

Cooperation agreement on the implementation of NordBalt project concluded with Svenska Kraftnät, a Swedish TSO, in March 2011 provides for the parties' cooperation in the phases of planning and construction of the link, while the infrastructure established during the construction will be owned by the parties separately: the Lithuanian TSO will be the owner of the current converter at the Klaipėda TS, the cable from the Klaipėda TS to the sea, and 50% of the cable in the sea. The remaining part of the cable and the link infrastructure on the Swedish side will be owned by Svenska Kraftnät.

By decision of the European Commission of 5 August 2010, EU assistance of EUR 131 m was granted to the NordBalt project; 50% of it will be used for the financing of the project's implementation on the Lithuanian side. In December 2010, the Company concluded agreements on the production and installation of the cable and on construction of the converter stations with ABB – a company that was awarded the contracts in a tendering procedure.

In June 2011, the works under the NordBalt project were transferred to a testing ground – first tests of the sea cable were successfully carried out in Karlskrona (Sweden). Each cable is designed and produced according to the specific power transmission requirements, technologies applied, and specific installation conditions such as depth of the sea and bottom characteristics. Testing of the cable's resistance to mechanical impacts was the first test completed. Success of mechanical tests guarantees that, upon installation of the cable on the sea bottom, the technical characteristics of the link will comply with those indicated in the specifications. This will be followed by tests of current and voltage impact upon the cable, the success of which will guarantee that the cable system will bear voltage of at least 300 kV and electric current of at least 1250 A.

Preparatory works of the LitPol Link, the Lithuanian – Polish power link, project were continued in the first half-year of 2011:

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

- territorial planning – preparation of a special plan for the 400 kV overhead line from Alytus to the Lithuanian-Polish border is underway and a detailed plan for the extension of the Alytus TS with a back-to-back converter is completed;
- publication of the detailed plan for the extension of the Alytus TS;
- land ownership issues related to the extension of the Alytus TS resolved;
- approval of the "Feasibility Study of the extension of the Alytus TS with a Back-to-back Converter";
- approval of the LitPol Link financial and operating model.

EUR 2.37 m was allotted from the EU TEN-E fund for the preparation of the technical design of the Alytus TS reconstruction and extension and the overhead power line from Alytus to the Lithuanian-Polish border. For other works of this project, EUR 2 m from the Ignalina International Decommissioning Support Fund (administered by the European Bank for Reconstruction and Development) were used.

## **Risks Related to the Issuer's Activities**

### ***Political risks***

The Group is operating in the electric power sector – an area of the economy which is of extraordinary economic and political importance for the national interests. The sector is regulated by the State, inter alia, for the purposes of implementation of the objectives and tasks of the EU energy policy. The management, structure and functioning of the power sector in Lithuania is governed by the Republic of Lithuania Law on Electric Power and the implementing legal acts.

It should be noted that any amendments to the legal acts governing the power sector – both European Union and national legal acts – may necessitate changes in the activities of the Group. Furthermore, there are no guarantees that any changes in the legal framework will not have an adverse effect on the Company's activities, results and/or financial position.

97.5% of the Company's capital is controlled by the State (indirectly, through Visagino atominė elektrinė UAB) and election of members of the Board of the Company depends on its voting. This means that there are no guarantees that decisions having a substantial impact on the Company's and the Group's activities and financial position will not be adopted in pursuing the public policy in the electric power sector. In addition, such decisions may not always coincide with the opinions and interests of other shareholders of the Company.

### ***Financial risks***

The Group companies are exposed to financial risks in their operations including credit risk, liquidity risk and market risk (foreign currency risk, interest rate risk with respect to fair value and cash flows, securities risk). By managing these risks the Group companies seek to minimise the effects of factors that could potentially have an adverse impact on the financial results of the Group and the Company.

#### **Credit risk**

Credit risk related to accounts receivable is limited as key customers of the Company are reliable ones. As of 30 June 2011, the credit quality of the trade receivables that are not overdue and not impaired is high as the majority of the accounts are receivable from distribution network operators and major industrial enterprises. The Group and the Company are characterised by high concentration of credit risk as it is shared by the 10 key customers, whose debt accounts for about 99% of all trade receivables.

In order to reduce credit risk, LITGRID AB requires payment of a deposit of a set amount or submission of a bank guarantee from customers – balancing energy suppliers- prior to concluding agreements with them. The Company does not require deposits or guarantees for customers with respect to which it has liabilities itself. BALTPOL UAB requires deposits and/or guarantees from participants in the Electricity Exchange under the terms of payment set out in the Regulations of the Lithuanian Day Ahead Electricity Market.

LITGRID AB  
Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

The Group's credits risk related to cash at banks is limited as both LITGRID AB and BALTPOL UAB conduct operations through banks having high credit ratings given by foreign rating agencies. Cash and term deposits are kept in the accounts opened in Lithuania's largest banks having an external credit rating higher than A- assigned by Fitch Ratings.

Liquidity risk

Liquidity risk is managed by planning the movements of cash flows of the Group companies. Cash flow forecasts are made in order to minimise liquidity risk. Overdraft agreements and credit line agreements are used to manage the risk of delayed payment of accounts receivable and the risk of temporary discrepancies in cash flows (incoming and outgoing).

The Group's liquidity ratio (current assets/current liabilities) and quick ratio (current assets-inventories/current liabilities) were 1.32 and 1.30 respectively as of 30 June 2011. The Company's liquidity ratio (current assets/current liabilities) and quick ratio (current assets-inventories/current liabilities) were 1.33 and 1.32 respectively as of 30 June 2011.

Market risk

*Interest rate risk*

The Company and the Group are not exposed to a significant interest rate risk as deposits are the main interest-earning assets with fixed interest rates. In addition, the Group keeps its guarantees of discharge of liabilities at banks, on which interest linked to VILIBOR is received. Should interest rate increase/decrease 1%, the effect on the Group's profit before tax would be LTL 45/(45) thou. as of 30 June 2011.

*Foreign currency risk*

The currencies of financing and purchase and sale agreements concluded by the Company are LTL and EUR.

On 2 February 2002 the Litas was pegged to the Euro. Therefore, equity capital of the Company and of the Group is not significantly affected by currency exchange rate fluctuations.

*Securities risk*

The Group is not exposed to any risk related to securities' prices as it has not acquired securities.

**Technical and production risks**

The Lithuanian energy system has a number of intersystem lines connecting it with the neighbouring energy systems. The available means to control power and energy balance are not abundant, which makes the power and energy balance control complicated. While on average four 110 kV transformer substations are modernised every year, investments in the transmission network facilities were limited by 2002, therefore, about 50% of all the TS equipment is older than 25 years. 35% of all 110 kV overhead lines and 24% of all 330 kV overhead lines are older than 45 years. Failures and disruptions of operation of the main production equipment used in the operations can have an adverse effect on the volumes of operations and sales of the Group, and on the financial position and operating result of the Group at the same time.

**Environmental risk**

In its operations the Group takes guidance from environmental regulations providing for the appropriate marking, use and storage of dangerous substance and for compliance with the requirements set for the equipment operated by the Group. Facilities which pose an increased risk of damage to the environment due to the quantities of pollutants' emissions or waste generation are operated according to the conditions specified in the Integrated Pollution Prevention and Control (IPPC) Permits issued by the regional environmental protection departments. Environmental regulations obligate the Company to implement procedures and technologies preventing environmental pollution or mitigating its potential impact as well as ensuring appropriate response actions in cases of unavoidable pollution.

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

Apart from responsibility for current operations, the Group may be held responsible for any past activities, should it become clear that damage was done to the environment. In addition, any amendments to the national or international environmental regulations may obligate the Group to implement measures compliant with new standards. This may require additional investments and have a significant impact upon the Group's operations, financial position and results.

At present the Group is fully compliant with all the applicable environmental regulations.

## **Analysis of Financial and Non-Financial Performance Results of the Group. Environmental and Personnel Information**

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

The table below presents operating results of the Company and Group companies in the first half-year of 2011.

	<b>LITGRID AB</b>	<b>LITGRID AB Group</b>
<b>Financial results, LTL'000</b>		
Sales income related to electricity	187 418	187 468
Other operating income	2 162	21 674
EBITDA *	60 275	61 221
Operating profit (loss)	(6 341)	(6 690)
Net profit (loss)	(4 464)	(4 088)
Cash flows from operations	91 957	89 646
Financial liabilities	0	0
<b>Financial structure (%)</b>		
Shareholders' equity / assets (%)	80,5	79,9
Liabilities / equity (%)	19,4	20,5
Financial liabilities / equity (%)	0,0	0,0
Financial liabilities / assets (%)	0,0	0,0
<b>Margins and profitability</b>		
EBITDA margin (%)	31,8	29,3
Free cash flows (FCF)/turnover (%)	17,0	14,7
Average return on equity (%/year)	(0,5)	(0,4)
Average return on assets (%/year)	(0,4)	(0,3)
Earnings per share (LTL/share)		(0,01)
Book value per share 2011-06-30 (LTL)	3,81	-
Market value per share 2011-06-30 (LTL)	1,61	-
<b>Quality of power transmission services</b>		
END, MWh (electricity not transmitted due to interruptions)**	0	-
AIT, min. (average interruption time) **	0	-
<b>Production costs in transmission network (%)</b>	2,25	-

\* Earnings before tax + interest costs - interest income - dividend received + depreciation & amortisation + non-current & current assets impairment charge.

\*\* Only for reasons falling within the operator's responsibility and undetermined causes.

The Company started operations on 1 December 2010, therefore, comparative figures for 2010 are not available.

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

According to the Requirements for the Power Transmission Reliability and Service Quality approved by State Commission on Price and Energy Control ("the Commission"), two indicators are used to determine the power transmission reliability level: END, i. e. the quantity of electricity not transmitted, which shows the quantity of electricity not transmitted during a reporting period due to interruptions, and AIT, i. e. the average interruption time, which shows the average length of interruptions during the reporting period. The minimum reliability level set for 2011 was as follows: END for reasons falling within the operator's responsibility and undetermined causes – not more than 5 MWh (in first half-year of 2011: 0 MWh) and AIT not more than 0.26 min. (0 min.).

*Balance sheet*

As of 30 June 2011 the Company had no financial liabilities to credit institutions. Cash and term deposits amounted to LTL 149 m, including LTL 49 m – administered PSO funds.

*Profit and loss account*

*Income*

Income of the Group in first half-year of 2011 was LTL 209.1 m. Income from the core activity – electricity transmission – was LTL 102.5 m, or 49 % of total income.

TETAS UAB earned income of LTL 24.1 m and BALTPOOL UAB LTL 1.3 m in the first half-year of 2011.

*Costs*

Costs of the Group in the first half-year of 2011 amounted to LTL 215.8 m. Costs of purchasing electricity and related services accounts for the larger part of the costs (LTL 96.7 m, or 45%).

TETAS UAB incurred costs of LTL 23.7 m in the first half-year of 2011 including LTL 10.2 m as costs of purchasing subcontractor services and materials/raw materials.

*Profit (loss)*

Loss before tax of the Group in the first half-year of 2011 amounted to LTL 4.6 m as determined according to the International Financial Reporting Standards, net loss amounted to LTL 4.1 m.

The main reason for the loss is that the depreciation and amortisation costs as disclosed in the financial statements (LTL 66.4 m in the first half-year of 2011) are much higher than the same costs calculated for the purposes of setting the transmission tariff rate (LTL 26.9 m).

*Dividend policy*

The Group has no formal dividend payment policy. The Government of the Republic of Lithuania, which indirectly (through Visagino atominė elektrinė UAB) controls 97.5% of shares in the Company, has established the principles of allocating dividend on the state-owned shares by its resolution No 20 of 14 January 2007 (new version of resolution No. 1451 of 3 December 2001).

*Cash flow statement*

Net cash flows from operations were positive in the first half-year of 2011 and amounted to LTL 89.6 m. In the same period, investment cash flows of the Group were LTL (115.9) m and the net cash flow was LTL (26.3) m.

TETAS UAB's net cash flows from operations in the first half-year of 2011 were LTL 2.1 m.

**Personnel and environmental issues**

***Personnel***



LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

As of 30 June 2011, the Group employed 621 people: LITGRID AB - 206, BALTPPOOL UAB - 9, TETAS UAB - 406 employees. During the first half-year of 2011, statistical turnover of employees at LITGRID AB was 3.9% including dismissals on agreement of the parties, at the employee's request etc.; there was no employee turnover at BALTPPOOL UAB.

**Employees (average number of employees, changes in last financial / business year, reasons for material changes (over 10%), grouping of employees by education; numbers and average gross monthly pay of managers, specialists and blue-collar workers; special rights and responsibilities of the Issuer's employees or part thereof as provided for in employment contracts or collective agreements**

*Number of employees and pay*

The wage fund amounted to LTL 12,240,000 in the reporting period.

	Number of personnel as of 30 June 2011	Average pay, LTL
Blue-collar workers	224	2.173
Specialists	350	3.378
Managerial personnel	47	8.442
<b>Total</b>	<b>621</b>	<b>3.323</b>

*Educational attainment of employees as of period end*

	30 June 2011
Number of employees	621
including:	
higher education	353
further education	144
secondary and vocational secondary education	124

### **Social initiatives and policies pursued by the Company**

Understanding the benefits of socially responsible business for the socio-economic development of society, the Company pursues a social policy and applies advanced environmental protection and business transparency principles, which are integrated into the Company's internal processes and external relations. Attention is focussed on the training and formation of management team as well as internal communication. Changes in corporate governance are aimed at the main areas of activities – implementation of strategic projects, development and integration of electricity market, reliable control of the system, and internal transformations and innovations at the organisation.

By introducing new organisational culture, improving management and increasing efficiency, the Company seeks to ensure irreversible positive changes brought about by the reorganisation of the power sector.

In the first half-year of 2011, LITGRID concluded a collective agreement with the employees' trade union. The agreement defines and establishes fair remuneration for work and governs social and economic relations between the employer and the employees.

### **Environmental protection**

In order to comply with the environmental regulations, the Company must ensure proper management of waste and wastewater and implement preventive measures to avoid negative impact on the environment. Main environmental tasks of the Company – safe use of dangerous substances,

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

management of waste and wastewater generated by the Company, and matching of energy equipment and structures to the landscape.

Environmental protection activities are organised at the Company according to the provisions of the instructions regulating waste and wastewater management, safe use of chemicals etc., setting environmental requirements for the newly constructed and reconstructed facilities, and according to the IPPC permits.

The Company hires licensed companies for the waste management, maintenance of wastewater treatment facilities and chemical examinations of wastewater. Since October 2010, when the operation of the transmission network equipment was undertaken by the contractors (TETAS UAB and Elektros tinklo paslaugos UAB), organisation and implementation of environmental works was also undertaken by them, however, the Company remains responsible for compliance with the environmental regulations and the relevant reporting.

Main types of dangerous waste generated at the Company: transformer oils and waste related to their use (oil-contaminated wastewater, sludge contaminated with petroleum products accumulated in the treatment facilities, oil waste unfit for use, compressor oils and water emulsion, absorbents and cloths contaminated with oil), batteries, luminescent lamps, residual chemical substances etc.). The Company is covered by civil liability insurance against sudden losses or damage due to the environment by pollution including pollution cleaning costs.

The Company exercises constant control over wastewater released into the environment after treatment by conducting chemical examinations according to the conditions of the IPPC permit or the Wastewater Management Regulations; maintenance of stormwater and domestic wastewater treatment facilities is carried out according to the operating instructions provided by manufacturers.

Environmental impact assessments are carried out for the planned new power transmission lines. Environmental requirements are set for the design of new or reconstruction of new structures (transformer substations, switchyards, power transmission lines etc.). The Company seeks to abandon equipment which uses materials dangerous to the environment by selecting environmentally-friendly or less damaging equipment (e.g. oil connectors are replaced with gas ones). In the tendering procedures for the supply of services, a requirement that the contractors must have implemented the Environmental Management Systems (EMS) according to LST EN ISO 14001 is set; contractors are obligated to take management actions with respect to waste generated during construction and to furnish the Company with the documentary evidence.

TETAS UAB has two internal auditors who conduct internal audits and assess the effectiveness of the integrated EMS in the operations of the company. The company keeps registers for environmental protection purposes; hazardous waste is subjected to processing.

#### **References and Additional Explanations on Figures Disclosed in the Consolidated Financial Statements**

More detailed explanations of financial information are provided in the Explanatory Notes to Financial Statements for the First Half-Year of 2011.

#### **Material events since the end of half-year**

On 29 July 2011, the State Commission on Price and Energy Control decided that during 2010 – 2016, LTL 479 m will be allotted for the financing of NordBalt project from the funds collected from the provision of PSO services.

#### **Operating plans and projections of the Group**

In 2011 the Company will continue its activities carried out in 2010, i. e. will perform the TSO functions; BALTPOL UAB will perform the functions of a market operator; TETAS UAB will provide services of maintenance, repairs and installation, and testing of transformer substations and switchyards, and designing of energy facilities.

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

The Company has no information about any significant risks or contingencies that could be encountered in the continuing operations of LITGRID AB as a TSO.

In 2011 the Company plans to continue implementation of NordBalt and LitPol Link projects; investments in the reconstruction of the transmission network will not be smaller than in 2010.

BALTPOOL UAB organises the day-ahead electricity exchange in collaboration with Nord Pool Spot, an electricity exchange of Nordic countries, which provides the exchange platform rental services. To implement the BEMIP plan and to create a common Baltic market in electricity, it is intended that the operations of the day-ahead electricity exchange will be transferred to Nord Pool Spot by creating a Nord Pool Spot price zone in Lithuania in the first half-year of 2012. In the second half of 2011 BALTPOOL UAB will continue preparations for the transfer of the exchange trade arrangements to Nord Pool Spot AS – the operator of Nord Pool Spot.

BALTPOOL UAB is preparing for another phase of development of the electricity market – introduction of a market for long-term electricity contracts. The current Lithuanian electricity market allows day ahead trading, however, market participants wish to have opportunities for long-term trading. In order to meet the demand, a long-term contracts market will be developed. Financial instruments will be traded in such market, which means that trade in electricity will take place on electricity exchange but the parties to long-term contracts would settle up for the differences between exchange price and contract price. The operation of the long-term contracts market will be similar to that of the electricity exchange – orders will be placed centrally and the trading system will calculate and publish market prices.

### **Information on Research and Development Activities at the Group Companies**

The Company implements a sound investment policy, which is justified in technical and economic respects, and prepares annual research and development programmes focussed on the development of the power system and increasing the efficiency of the transmission network. Implementation of these programmes takes place mainly through long-term investments in the construction of new energy facilities or extension and modernisation of the present ones. One of the main tasks – reconstruction of energy facilities by replacing outdated equipment with modern technologies and introduction of modern relay protection, system automation, control, and information collection and transmission systems.

Every year the Company draws up long-term (10 year) construction and reconstruction plans according to the Republic of Lithuania Law on Power System, the National Energy Strategy adopted by the Seimas (Parliament), research studies etc. Annual investment plans are prepared on the basis of long-term plans.

In order to efficiently use investments in the new construction and reconstruction, the Company has launched, jointly with LESTO AB – a distribution network operator, a bilateral initiative the purpose of which is to

- maintain long-term cooperation of LITGRID AB and LESTO AB;
- assess and optimise investments in the transmission and distribution networks;
- assess and optimise investments in transformer substations which are underloaded and have no prospects;
- optimise costs of connection of new consumers and producers to the energy system;
- standardise and optimise technical requirements for those components of the transmission and distribution systems that are common to both operators, in order to cut costs.

Furthermore, in order to optimise investments in reconstruction, the Company initiated an internal project on planning of operation of and investments in electrical equipment based on the equipment's condition in order to ensure non-deterioration of reliability indicators and reduction of network losses. Expected output of the project – determination of optimal scope of necessary reconstruction of TS and power transmission lines, methodology for setting reconstruction priorities, setting of the sequence of facilities' reconstruction, and implementation of the system of equipment operation based on condition.

In order to attain its strategic objectives, the Company intends to carry out, jointly with the Latvian and Estonian TSOs, a feasibility study „Options for the integration of the energy systems of the Baltic States

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

into the Continental Europe's market in electricity". This feasibility study is co-financed by the EU programme Transeuropean Energy Network for Electricity (TEN-E).

**Number and Par Value of the Shares of the Controlling Company owned by the Company, Its Subsidiaries or Persons Acting on Instruction Thereof but in Their Own Name**

The Company has not acquired its own shares. The subsidiaries have not acquired shares in the Company.

**Other Information on the Issuer**

**Structure of the authorised capital of the Issuer (number of shares, share par value, share classes, rights and responsibilities attached to each share class, percentages of share classes in the share capital)**

The authorised capital of the Company registered in the Legal Persons Register of Enterprises as of 16 February 2010 amounts to LTL 504,331,380. It has been divided into 504,331,380 ordinary registered shares of LTL 1 par value. All the shares have been fully paid for.

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

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

- receive part of the Company's profit (dividend);
- receive part of the assets of the Company under liquidation;
- receive shares free of charge when the authorised capital is being increased from the Company's funds save for exceptions established in the Republic of Lithuania Law on Companies;
- acquire shares or convertible debentures issued by the Company on pre-emption basis save for the case when the general meeting of shareholders decides to withdraw this right for all the shareholders according to the procedure established by save for exceptions established in the Republic of Lithuania Law on Companies;
- lend money to the Company in the manner permitted by the law, however, where the Company borrows from the shareholders it may not use its property as security for the loan. Where the Company borrows from its shareholders, the interest rate may not exceed the average interest rate applied by commercial banks in the place of residence or in the place of business of the lender as of the date of the agreement. In such a case the Company and the shareholders may not agree on higher interest rates;
- transfer all or part of his shares to other persons;
- obtain part of the company's funds when the company's authorised capital is reduced in order to make payments to the shareholders;
- other property rights provided for by the laws.

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

- attend general meetings of shareholders;
- vote at the general meetings of shareholders using the votes attached to the shares; one vote if attached to an ordinary registered share;
- receive information about the Company to the extent established by the law;
- file a lawsuit against the Company for the damage done by non-fulfilment or improper fulfilment of duties, provided for in the laws and the Articles of Association, by the CEO and members of the Board of the Company and file a lawsuit in other cases established in the law;
- other non-property rights provided for by the laws.

**Number of own shares acquired and disposed in the accounting period, their par value and the proportion of the authorised capital**

There were no own share acquisitions or disposals during the accounting period.

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

**Any restrictions on transfer of securities (e. g. restrictions on blocks of securities or requirement that a consent of the Company or other securities' holders must be obtained)**

None

**Shareholders (total number of shareholders; shareholders that own or control, at the end of accounting period (specify date), over 5% of the Issuer's authorised capital (first names and surnames of natural persons (the printed-out copy of the Annual Report submitted to the Commission must also contain personal IDs of these persons), names, legal forms, business IDs and registered office addresses of legal persons); numbers of shares owned by shareholders by classes, percentage shares of authorised capital and votes held; votes attached to the shares owned by each shareholder (in %) and votes held indirectly (in %))**

Total number of shareholders of the Company as of 30 June 2011: 5,955. Shareholders holding more than 5% of authorised capital of LITGRID AB as of 30 June 2011 (LTL 504,331,380):

Name	Type of shares	Number of shares	Proportion of authorised capital (%)	Proportion of votes (%)
Visagino atominė elektrinė UAB, Žvejų g. 14, LT-09310 Vilnius, business ID 301844044	Ordinary registered shares	491 736 153	97,5	97,5

**Shareholders having special control rights and description of the rights**

None.

**Any restrictions on voting rights (e. g. restrictions on voting rights of persons holding certain percentage or number of votes; time limits for using the voting rights; or systems whereby property rights attached to securities are separated from holding of securities)**

None.

**Any agreements between shareholders which are known to the Issuer and due to which transfer of securities and/or voting shares can be restricted**

None

**Information on branches and representative offices of the Company**

The Group has no branches and representative offices.

**Powers of the Issuer's bodies to issue and buy shares of the Issuer**

None

**Information about rules governing the election and replacement of members of the Board and amendments to the Articles of Association**

Articles of Association of the Company may be amended following the procedure establishes in the Republic of Lithuania Law on Companies by decision of the general meeting of shareholders adopted by at least 2/3 majority vote of all the shares represented at the general meeting of shareholders.

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

The Board consists of 5 (five) members. The Board is elected for the term of office of 4 (four) years. The term of office of the Board starts after the end of the general meeting at which it was elected and ends on the date of the general meeting held in the last year of the Board's term of office.

If the Board is recalled, resigns or stops performing its duties for any other reason prior to the end of the term of office, the new board is elected for the remaining term. If individual members of the Board are elected, they are elected only for the period remaining until the end of the term of the current Board.

A shareholder of the Company proposing candidacies for the Board members must provide written explanations to the general meeting, specifying qualifications, management experience and fitness for the position of each candidacy proposes.

Each candidate to the Board members must submit to the general meeting of shareholders a written confirmation that he/she agrees to be such candidate and a declaration of the candidate's interests, specifying in it any circumstances that may give rise to a conflict of interest between the Board member and the Company. If new circumstances of this nature arise, the Board member must immediately notify the Company and the Board in writing.

The Board elects a chairman from among its members.

#### **Information about powers of the members of the Board**

The Board is a collective management body of the Company.

The scope of competence and procedures of decision-adoption and election and recalling of members of the Board are established by the laws, regulations and the Articles of Association.

The Board reports to the general meeting of shareholders.

#### **Scope of competence of the general meeting of shareholders, rights of shareholders – if such information is not provided in the laws**

The general meeting of shareholders is the supreme body of the Company.

The scope of competence and procedures for holding meetings and decision-adoption are established by the laws, regulations and the Articles of Association.

#### **Composition of management and supervision bodies and committees thereof; scope of activities of these bodies and the CEO**

##### *Areas of activities of the Board*

The Board of the Company considers and approves the Company's operating strategy and budget, the organisational structure, positions of employees and the total / maximum number of employees.

The Board adopts decisions on becoming a promoter of a legal person; on transfer of any shares in the Company or votes attached thereto to third parties and on restrictions thereon.

The Board may establish guidelines and rules for operation of its subsidiaries as well as their annual financial plans, the annual rate of return on assets, ceilings of liabilities and other operating indicators of subsidiaries.

The Board adopts decisions on formation or termination of branches and representatives offices of the Company, as well as on approval of and amendments to their regulations. The Board appoints and recalls heads of branches and representative offices, considers issues related to the formation or termination of branches and representatives offices of the companies in which the Company has interests (including subsidiaries of the Company) as well as candidacies to the members of the board proposed by the Company.

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

The Board adopts decisions on issue of debentures, rendering of support and charity based on the share of profit allocated by the general meeting of shareholders for this purpose according to the procedures established by the Board.

The Board adopts decisions on the Company's participation in associations or any other amalgamations of legal persons.

The Board establishes the salary and other terms of employment contract for the head of an internal audit unit of the Company, approves his/her job instructions, provides incentives and imposes penalties.

The Board adopts decisions on the following transactions (applicable to individual transactions or a series or related transactions), except cases when transactions meeting these criteria are included in the Company's budget:

- investment, transfer or lease of non-current assets whose book value exceeds LTL 10,000,000 (ten million Litass) (applicable to each type of transaction separately);
- mortgage of non-current assets whose book value exceeds LTL 10,000,000 (ten million Litass) (applicable to the sum of transactions);
- standing surety or guaranteeing of third-party obligations whose amount exceeds LTL 10,000,000 (ten million Litass);
- acquisition of non-current assets at a price higher than LTL 10,000,000 (ten million Litass) except for cases when the Company acquires such assets due to connection of electrical equipment of consumers, producers or other persons to the Company's network or due to reconstruction/removal of the Company's electric equipment at a request of a third party.

The Board adopts decisions on:

- transfer, pledge/mortgage, changing of legal status, other encumbrance or disposal of entities and equipment owned by the Company which are strategically significant for national security as stated in the Law on Enterprises and forming the transmission network of 110 kV or higher voltage as well as equipment related to such network;
  - transfer, pledge/mortgage, changing of legal status, other encumbrance or disposal of intersystem power connections with other states owned by the Company;
  - transfer, pledge, other encumbrance or disposal of shares (and rights attached thereto) in the companies which are controlled by the Company either directly or indirectly and which own, develop, control, use or dispose of intersystem power connections with other states, or which implement and perform functions and activities of power system operators or market operators; increase or decrease in the authorised capital of such companies or other actions that may change the structure of authorised capital of such companies (e.g. issue of convertible bonds); reorganization, separation, restructuring, liquidation, transformation of such companies or other actions that can change the status of such companies.
- Prior to adopting the latter decisions, the Board must obtain an approval of the general meeting of shareholders. Such approval does not release the Board from responsibility for the decisions adopted.

The Board also resolves issues (including those related to transactions) on which it is approached by the Director General.

Where approval of the general meeting of shareholders is needed for the Board's decision under the law, decisions of the Board may only be implemented upon receipt of the approval.

#### *Areas of activities of CEO*

Director General is the single-handed management body of the Company. Director General organises and directs activities of the Company, acts on behalf of the Company and may conclude transactions single-handedly.

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

The scope of competence and procedures for election and recalling of the Director General are established by the laws, regulations and the Articles of Association.

**Members of the Supervisory Council and the Board of the Company, chief executive officer of the Company, chief financier (first names and surnames, data on participation in the Issuer's authorised capital, start and end of term of office of each person), information on amounts paid, other assets transferred and guarantees provided by the Issuer to these persons (total amounts and average amounts per member of the Supervisory Council and the Board, CEO and chief financier**

The following persons occupied the positions of members of the Board, the Chief Executive Officer and the Chief Financier of the Company

Position	Name	Start date	End date	Number of shares in the Issuer's company
Board				
Chairman	Romas Švedas	2010-10-28		-
Member	Violeta Greičiuvienė	2010-10-28		-
Member	Renatas Šumskis	2010-10-28	2011-04-01	-
Member	Vidmantas Grušas	2010-10-28	2011-04-01	-
Member	Virgilijus Poderys	2010-12-08		-
Member	Gintaras Labutis	2011-04-01		-
Member	Valentinas Pranas Milaknis	2011-04-01		-
Director General	Virgilijus Poderys	2010-12-08		-
Chief Financier	Tatjana Didikienė	2010-11-17		-

Information on salaries, bonuses and other allocations from profit to paid during the accounting period, total and on average per person (administration includes the Director General and the Chief Financier).

	Salary in January – June 2011, LTL
Per member of the Board on average	0
To all members of the Board collectively	0
Per member of the Administration on average	89 825
To all members of the Administration collectively	179 650

**Members of committees formed in the Company (first names and surnames, data on participation in the Issuer's authorised capital, start and end of term of office of each person, position, powers and main functions)**

None



LITGRID AB  
Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

**Any material agreements to which the Issuer is a party and which would take effect, change or cease in case of change in the Issuer's control. Impact of such transactions except for cases where disclosure would cause considerable damage to the Issue due to nature of the agreements**

There are no material agreements which would take effect, change or cease in case of change in the Issuer's control.

**Any agreements between the Issuer and members of its bodies / employees providing for compensation in case of resignation or dismissal without a valid reason or due to change in the Issuer's control**

None

**Issuers of equity securities must also present information on major related party transactions specifying the amounts of transactions, nature of relate-party relationship and other information on the transactions required for understanding financial position of the Company if such transactions are materials or were concluded on a basis other than arms-length basis. Information on individual transactions may be generalised based on transaction types except for cases where, in order to understand the impact of the related-party transactions on the Company's financial position, detailed information must be presented. "Related party" has the same meaning as in the accounting standards applied by the Issuer.**

Related party transactions are disclosed in Note 9 to the Financial Statements.

#### **Information on Compliance with the Code of Corporate Governance**

Information on compliance with the Code of Corporate Governance is presented in Annex to this Annual Report.

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

The Company is in substance compliant with all the provisions of Sections IV–VIII of the Guidelines on Transparency, except:

- The Company has not followed the practice of publishing annual salaries of management of the Company.
- The Group has no formal dividend payment policy.
- The Company has not followed the practice of specifying the average monthly salary by divisions in the Annual Report.

#### **Information on publicly available information**

In the first half-year of 2011 the Company published the following notices of material events:

2011.06.10	Concerning differences in the estimated and audited results of LITGRID turtas AB for 2010
2011.05.31	Consolidated interim financial information on LITGRID AB and simplified interim financial information on the company
2011.05.20	Concerning registration of Articles of Association of BALTPOOL UAB
2011.05.03	Notice of contract/agreement
2011.04.29	Annual information for 2010
2011.04.29	Decisions adopted at the general meeting of shareholders of LITGRID AB on 29 April 2011

LITGRID AB

Business ID 302564383, registered office address A. Juozapavičiaus g. 13, LT-09311 Vilnius

CONSOLIDATED INTERIM REPORT  
30 JUNE 2011

2011.04.27	Concerning notice of prices and tariffs of the power transmission service and amendments to the procedure of their application
2011.04.13	Concerning supplements to the agenda of the general meeting of shareholders of LITGRID AB being convened and approval of draft decision
2011.04.01	Decisions adopted at the extraordinary meeting of shareholders of LITGRID AB on 1 April 2011
2011.04.01	Notice of the target financial indicators of LITGRID AB for 2011 proposed by the Ministry of Finance
2011.03.30	Notice of valuation of shares of BALTPOL UAB
2011.03.30	CORRECTION: general meeting of shareholders of LITGRID AB is convened
2011.03.29	General meeting of shareholders of LITGRID AB is convened
2011.03.15	LITGRID turtas AB renamed into LITGRID AB
2011.03.10	Extraordinary meeting of shareholders of LITGRID AB is convened
2011.03.04	Decisions adopted at the extraordinary meeting of shareholders of LITGRID turtas AB on 4 March 2011
2011.03.04	Notice of de-registration of LITGRID AB from the Legal Persons Register
2011.03.01	LITGRID turtas AB has taken over assets, rights and liabilities of LITGRID AB
2011.02.28	Preliminary consolidated unaudited operating results of LITGRID turtas AB Group of companies for 2010
2011.02.25	Notice of the issue of the power transmission licence to LITGRID turtas AB
2011.02.09	Extraordinary general meeting of shareholders of LITGRID turtas AB is convened
2011.01.31	Concerning approaching the State Commission of Price and Energy Control
2011.01.25	Decisions adopted at the extraordinary meeting of shareholders of LITGRID turtas AB on 24 January 2011
2011.01.20	Concerning treatment of the Terms of Reorganisation as information equal to Prospectus
2011.01.11	Income of LITGRID turtas AB for 2010 may reach LTL 900 million
2011.01.11	LITGRID turtas AB presentation for investors
2011.01.04	Invitation to presentation of LITGRID turtas AB

Detailed information on material events in 2011 can be found in the website of Vilnius Securities Exchange [www.nasdaqomxbaltic.com/market/?pg=news](http://www.nasdaqomxbaltic.com/market/?pg=news) and the website of the Company [www.litgrid.eut](http://www.litgrid.eut).