CONFIRMATION OF RESPONSIBLE PERSONS
March 12, 2013 Vilnius

Referring to the provisions of the Article 21 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, Darius Zagorskis, Head of Company's Finance Planning and Analysis Division, Acting Director of Finance Department, and Svetlana Sokolskytė, Chief Financier – Head of Accounting Division of LITGRID AB, hereby confirm that, to the best of our knowledge, the consolidated financial statements of LITGRID AB for the financial year 2012 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 or loss and cash flows, the Consolidated Annual Report includes a fair review of the development and performance of the business and the position of the LITGRID AB and consolidated position of group of companies, together with a description of the principal risks and uncertainties that it faces.

Chief Executive Officer — Virgilijus Poderys

Head of Company's Finance Planning and Analysis Division, Acting Director of Finance Department — Darius Zagorskis

Chief Financier — Svetlana Sokolskytė

LITGRID AB

CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2012 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED ANNUAL REPORT

CONTENTS

The financial statements were signed on 12 March 2013.

Virgilijus Poderys General Director	Darius Zagorskis Head of Company's Finance Planning and Analysis Division, Acting Director of Finance Department	Svetlana Sokolskytė Chief Financier

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

Independent Auditor's Report

To the shareholders and Board of Directors of LITGRID AB

Report on the financial statements

We have audited the accompanying stand-alone and consolidated financial statements of LITGRID AB ("the Company") and its subsidiaries ("the Group") set out on pages 5 to 46, which comprise the stand-alone and consolidated statements of financial position as of 31 December 2012 and the stand-alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information ("the financial statements").

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Basis for Qualified Opinion

According to the Company's and the Group's accounting policy, property, plant and equipment should be carried at revalued amounts, being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses, and are subject to an impairment test when impairment indicators exist. As explained in Note 3.27 to the financial statements, the amendments to the legislation may have had a significant adverse impact on the fair value and recoverable amount of the Company's and the Group's assets. The management has not reassessed fair values of property, plant and equipment with the carrying amounts of LTL 1,975 million and LTL 1,977 million, respectively, as at 31 December 2012 (LTL 1,986 million and LTL 1,989 million, respectively, as at 31 December 2011), or carried out a proper impairment test. It has not been possible to estimate reliably the effects of this non-compliance on the financial statements.

Qualified opinion

In our opinion, with the exception of the effect on the financial statements of the matter described in the preceding paragraph, the Financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2012, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated annual report for the year ended 31 December 2012 set out on pages 47 to 79 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2012.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
12 March 2013

LitGRID

LITGRID AB
Company code 30256438, address: A. Juozapavičiaus g. 13, LT-09311 Vilnius

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(All amounts in LTL thousands unless otherwise stated)

	Note	Group as at 31 December 2012	Company as at 31 December 2012	Group as at 31 December 2011	Company as at 31 December 2011
Non-current assets:					
Intangible assets	4	1,749	1,432	1,759	1,434
Property, plant and equipment	5	1,978,378	1,974,781	1,990,187	1,985,537
Prepayments for property, plant, equipment		110,510	110,510	87,029	87,029
Investments in subsidiaries	6	-	8,608	-	8,608
Investments in associates and jointly controlled entities	6	16,052	16,601	20,804	21,332
Deferred income tax assets	23	218	-	297	-
Available-for-sale financial assets	7	7,722	7,722	1,084	1,084
Total non-current assets		**2,114,629**	**2,119,654**	**2,101,160**	**2,105,024**
Current assets:					
Inventories	8	14,003	2,438	4,202	2,214
Prepayments		351	106	236	2,440
Trade receivables	9	72,156	51,646	45,310	37,782
Other accounts receivable	10	97,034	95,844	88,911	79,181
Other financial assets	12	63,490	62,312	61,096	61,096
Time deposits	11	-	-	115,079	115,079
Held-to-maturity investments	13	-	-	21,539	21,539
Cash and cash equivalents	14	127,387	126,097	65,185	57,131
Total current assets		**374,421**	**338,443**	**401,558**	**376,462**
Non-current assets held for sale	6	5,620	4,731	-	-
TOTAL ASSETS		**2,494,670**	**2,462,828**	**2,502,718**	**2,481,486**
EQUITY AND LIABILITIES					
Capital and reserves:					
Share capital	15	504,331	504,331	504,331	504,331
Share premium	15	29,621	29,621	29,621	29,621
Revaluation reserve	16	246,582	246,339	267,179	266,960
Legal reserve	17	50,464	50,433	50,477	50,433
Other reserves	17	654,738	654,654	979,738	979,654
Retained earnings (deficit)		44,742	47,160	63,942	66,951
Equity attributable to the shareholders of the parent company		**1,530,478**	**1,532,538**	**1,895,288**	**1,897,950**
Non-controlling interest		**4,390**	**-**	**4,253**	**-**
Total equity		**1,534,868**	**1,532,538**	**1,899,541**	**1,897,950**
Non-current liabilities:					
Grants	19	304,971	304,971	182,359	182,359
Non-current borrowings	20	138,112	138,112	-	-
Deferred income	21	13,990	13,990	14,642	14,642
Other non-current accounts payable and liabilities	22	6,291	6,100	7,458	7,273
Deferred income tax liabilities	23	166,775	166,775	178,588	178,588
Total non-current liabilities		**630,139**	**629,948**	**383,047**	**382,862**
Current liabilities:					
Current portion of non-current borrowings and other current borrowings	20	45,956	41,434	-	-
Trade payables	24	102,618	83,931	54,921	52,459
Advance amounts received	25	3,397	2,571	4,340	1,363
Income tax payable		10,430	10,430	7,162	6,800
Other accounts payable	26	167,262	161,976	153,707	140,052
Total current liabilities		**329,663**	**300,342**	**220,130**	**200,674**
Total liabilities		**959,802**	**930,290**	**603,177**	**583,536**
TOTAL EQUITY AND LIABILITIES		**2,494,670**	**2,462,828**	**2,502,718**	**2,481,486**

The accompanying notes are an integral part of these financial statements.

LitGRID

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in LTL thousands unless otherwise stated)

	Notes	Group 2012	Company 2012	Group 2011	Company 2011
Revenue					
Sales of electricity and related services	27,28	430,527	430,114	383,193	383,052
Other revenue	29	77,840	8,188	51,613	5,892
Total revenue		**508,367**	**438,302**	**434,806**	**388,944**
Operating expenses					
Purchase of electricity and related services		(215,728)	(217,271)	(201,300)	(203,700)
Depreciation and amortisation	4,5,19	(126,283)	(124,960)	(133,612)	(132,488)
Wages and salaries and related expenses		(36,910)	(17,724)	(35,823)	(17,185)
Repair and maintenance expenses		(14,482)	(24,067)	(15,997)	(25,377)
Telecommunications and IT systems expenses		(14,167)	(13,144)	(13,374)	(12,535)
Write-off of property, plant and equipment		(1,409)	(1,409)	(12,929)	(12,929)
Other expenses		(71,061)	(11,278)	(46,160)	(10,608)
Total operating expenses	28	**(480,040)**	**(409,853)**	**(459,195)**	**(414,822)**
OPERATING PROFIT (LOSS)		**28,327**	**28,449**	**(24,389)**	**(25,878)**
Finance income	30	1,956	1,817	2,574	2,375
Finance costs		(116)	(90)	(17)	(9)
Finance income, net		1,840	1,727	2,557	2,366
Share of profit/(loss) of associates and jointly controlled entities	6	636	-	419	-
Gain on change in ownership interest in associate	6	232	-	1,699	-
		868	-	2,118	-
PROFIT (LOSS) BEFORE INCOME TAX		**31,035**	**30,176**	**(19,714)**	**(23,512)**
Current year income tax expense	23	(16,666)	(16,544)	(12,150)	(11,772)
Deferred tax income (expense)	23	11,745	11,813	15,085	14,960
		(4,921)	(4,731)	2,935	3,188
NET PROFIT (LOSS) FOR THE YEAR		**26,114**	**25,445**	**(16,779)**	**(20,324)**
Other comprehensive income					
Gain on revaluation of property, plant and equipment, net of deferred income tax		70	-	358	-
Share of comprehensive income of associate	6	-	-	(1,639)	-
Other comprehensive income, net of deferred income tax		**70**	**-**	**(1,281)**	**-**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**26,184**	**25,445**	**(18,060)**	**(20,324)**
NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO:					
Owners of the Company		26,005	25,445	(17,182)	(20,324)
Non-controlling interest		109	-	403	-
		26,114	**25,445**	**(16,779)**	**(20,324)**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ATTRIBUTABLE TO:					
Owners of the Company		26,047	25,445	(18,602)	(20,324)
Non-controlling interest		137	-	542	-
		26,184	**25,445**	**(18,060)**	**(20,324)**
Basic and diluted earnings (deficit) per share (in LTL)	32	**0.05**		**(0.03)**	

The accompanying notes are an integral part of these financial statements.

LitGRID

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in LTL thousands unless otherwise stated)

		Equity attributable to owners of the Company								
Group	**Note**	**Share capital**	**Share premium**	**Revaluation reserve**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2011		**504,331**	**29,621**	**296,353**	**47,730**	**-**	**1,035,947**	**1,913,982**	**3,359**	**1,917,341**
Comprehensive income										
Net profit (loss)		-	-	-	-	-	(17,182)	(17,182)	403	(16,779)
Share of comprehensive income of associate	6	-	-	-	-	-	(1,639)	(1,639)	-	(1,639)
Revaluation of property, plant and equipment	16	-	-	219	-	-	-	219	139	358
Depreciation of revaluation reserve and amounts written off	16	-	-	(29,393)	-	-	29,393	-	-	-
Total comprehensive income (loss) for the year		**-**	**-**	**(29,174)**	**-**	**-**	**10,572**	**(18,602)**	**542**	**(18,060)**
Transactions with owners										
Decrease in ownership interest in subsidiary not resulting in loss of control		-	-	-	-	-	(92)	(92)	352	260
Transfers to reserves		-	-	-	2,747	979,738	(982,485)	-	-	-
Total transactions with owners		**-**	**-**	**-**	**2,747**	**979,738**	**(982,577)**	**(92)**	**352**	**260**
Balance at 31 December 2011		**504,331**	**29,621**	**267,179**	**50,477**	**979,738**	**63,942**	**1,895,288**	**4,253**	**1,899,541**
Balance at 1 January 2012		**504,331**	**29,621**	**267,179**	**50,477**	**979,738**	**63,942**	**1,895,288**	**4,253**	**1,899,541**
Comprehensive income										
Net profit (loss)		-	-	-	-	-	26,005	26,005	109	26,114
Depreciation of revaluation reserve and amounts written off	16	-	-	(20,639)	-	-	20,639	-	-	-
Revaluation of property, plant and equipment	16	-	-	42	-	-	-	42	28	70
Total comprehensive income (loss) for the year		**-**	**-**	**(20,597)**	**-**	**-**	**46,644**	**26,047**	**137**	**26,184**
Transactions with owners										
Dividends	18	-	-	-	-		(390,857)	(390,857)	-	(390,857)
Transfers to retained earnings	17	-	-	-	(45)	(325,000)	325,045	-	-	-
Transfers to reserves		-	-	-	32	-	(32)	-	-	-
Total transactions with owners		**-**	**-**	**-**	**(13)**	**(325,000)**	**(65,844)**	**(390,857)**	**-**	**(390,857)**
Balance at 31 December 2012		**504,331**	**29,621**	**246,582**	**50,464**	**654,738**	**44,742**	**1,530,478**	**4,390**	**1,534,868**

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in LTL thousands unless otherwise stated)

Company	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2011		**504,331**	**29,621**	**296,353**	**47,665**	**-**	**1,040,304**	**1,918,274**
Comprehensive income								
Net profit (loss)		-	-	-	-	-	(20,324)	(20,324)
Depreciation of revaluation reserve and amounts written off	16	-	-	(29,393)	-	-	29,393	-
Total comprehensive income (loss) for the year		**-**	**-**	**(29,393)**	**-**	**-**	**9,069**	**(20,324)**
Transactions with owners								
Transfers to reserves		-	-	-	2,768	979,654	(982,422)	-
Total transactions with owners		**-**	**-**	**-**	**2,768**	**979,654**	**(982,422)**	**-**
Balance at 31 December 2011		**504,331**	**29,621**	**266,960**	**50,433**	**979,654**	**66,951**	**1,897,950**
Balance at 1 January 2012		**504,331**	**29,621**	**266,960**	**50,433**	**979,654**	**66,951**	**1,897,950**
Comprehensive income								
Net profit (loss)		-	-	-	-	-	25,445	25,445
Depreciation of revaluation reserve and amounts written off	16	-	-	(20,621)	-	-	20,621	-
Total comprehensive income (loss) for the year		-	-	(20,621)	-	-	46,066	25,445
Transactions with owners								
Transfers to reserves	17	-	-	-	-	(325,000)	325,000	-
Dividends	18	-	-	-	-	-	(390,857)	(390,857)
Total transactions with owners		**-**	**-**	**-**	**-**	**(325,000)**	**(65,857)**	**(390,857)**
Balance at 31 December 2012		**504,331**	**29,621**	**246,339**	**50,433**	**654,654**	**47,160**	**1,532,538**

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in LTL thousands unless otherwise stated)

	Notes	Group 2012	Company 2012	Group 2011	Company 2011
Cash flows from operating activities					
Net profit (loss)		26,114	25,445	(16,779)	(20,324)
Reversal of non-monetary expenses (income) and other adjustments					
Depreciation and amortisation expenses	4,5	127,991	126,670	135,479	134,355
Gain on revaluation of property, plant and equipment	5	(83)	-	(41)	-
Impairment of property, plant and equipment	5	24	24	7	-
Share of profit/(loss) of associates and jointly controlled entities	6	(636)	-	(419)	-
Gain on change in ownership interest in associate	6	(232)	-	(1,699)	-
Income tax expense/(income)	23	4,921	4,731	(2,935)	(3,188)
Loss on write-off of property, plant and equipment	5	1,730	1,689	13,619	13,619
Amortisation of grants	19	(1,711)	(1,711)	(1,867)	(1,867)
Interest income	30	(2,650)	(2,559)	(2,564)	(2,372)
Interest expense		1,365	1,340	-	-
Finance costs		(61)	(14)	17	9
Change in other financial assets	12	(2,394)	(1,216)	(59,436)	(59,436)
Changes in working capital					
(Increase) decrease in trade receivables and other amounts receivable		(38,553)	(34,111)	16,980	3,849
(Increase) decrease in inventories and prepayments		(9,916)	2,110	70	(2,545)
Increase (decrease) in accounts payable, grants and advance amounts received		30,085	23,815	39,070	59,790
Cash flows from operations		**135,994**	**146,213**	**119,502**	**121,890**
Income tax paid		(10 996)	(10 522)	(17,670)	(17,634)
Net cash generate from operating activities		**124,998**	**135,691**	**101,832**	**104,256**
Cash flows from investing activities					
Purchase of property, plant and equipment and intangible assets		(114,874)	(114,098)	(160,755)	(160,277)
Grants received	19	124,323	124,323	142,196	142,196
Interest received	30	3,605	3,514	1,283	1,091
Dividends received		237	237	-	-
Investments in time deposits		108,441	108,441	(72,079)	(72,079)
Purchase of held-to-maturity investments	13	21,539	21,539	(21,539)	(21,539)
Other		61	14	(17)	(9)
Net cash generated from/(used in) investing activities		**143,332**	**143,970**	**(110,911)**	**(110,617)**
Cash flows from financing activities					
Contribution made by non-controlling interest to the share capital of the subsidiary		-	-	260	-
Proceeds from borrowings	20	200,262	200,262	-	-
Repayments of borrowings	20	(20,716)	(20,716)	-	-
Overdraft	20	4,522	-	-	-
Interest paid		(871)	(846)	-	-
Dividends paid		(389,325)	(389,395)	-	-
Net cash (used in)/generated from financing activities		**(206,128)**	**(210,695)**	**260**	**-**
Net increase/(decrease) in cash and cash equivalents		**62,202**	**68,966**	**(8,819)**	**(6,361)**
Cash and cash equivalents at the beginning of the period	14	65,185	57,131	74,004	63,492
Cash and cash equivalents at the end of the period	14	**127,387**	**126,097**	**65,185**	**57,131**

The accompanying notes form an integral part of the financial statements.

1. General information

LITGRID AB (named LITGRID Turtas AB until 14 March 2011) is a public limited liability 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 LITGRID or "the Company") is a limited liability profit-making entity established as a result of spin-off of Lietuvos Energija AB operations based the decision of the Extraordinary General Meeting of Shareholders of Lietuvos Energija AB dated 28 October 2010 which was passed to approve the spin-off of Lietuvos Energija AB. The Company was registered with the Register of Legal Entities on 16 November 2010. The Company's code is 302564383; VAT payer's code is LT100005748413.

LITGRID is an operator of electricity transmission system operating electricity transmissions in the territory of Lithuania and ensuring the stability of operation of the whole electric power system. In addition, the Company is responsible for the integration and development of the Lithuanian electricity market, as well as for the maintenance and development of electricity transmission network - the strategic projects for electricity interconnections with Sweden and Poland that will ensure the country's energetic independence.

The principal objectives of the Company's activities 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 owing electricity interconnections with other countries or those that develop, manage, use or dispose them.

With effect from 1 January 2010, the function of the operator of electricity transmission system has been carried out by the Company's subsidiary LITGRID AB. 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.

The merger was accounted for using the predecessor method of accounting. The merged assets and liabilities were not restated to their fair value, instead assets and liabilities were combined at their carrying amounts. The amounts of assets, liabilities, income and expenses of entities merged were combined for all the periods presented in the financial statements (since the establishment of the Company).

On 24 February 2011, the Company was granted a license of the electricity transmission system operator by the National Control Commission for Prices and Energy (the Commission), the validity of which commenced after the merger of the companies on 1 March 2011, i.e. after the expiry of the validity of the license of the subsidiary.

With effect from 18 June 2012, LITGRID organises an additional trade session for electricity market participants as stipulated in the Electricity Trading Rules approved by the Order of the Lithuanian Minister of Energy.

As at 31 December 2012 and 31 December 2011, the Company's authorised share capital totalled 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.

As at 31 December 2012, the Company's shareholders structure was as follows:

	Ownership interest (in LTL)	Number of shares held (%)
EPSO-G UAB	491,736,153	97.5 %
Other shareholders	12,595,227	2.5 %
Total	**504,331,380**	**100 %**

As at 31 December 2011, the Company's shareholders structure was as follows:

	Ownership interest (in LTL)	Number of shares held (%)
Visagino Atominė Elektrinė UAB	491,736,153	97.5 %
Other shareholders	12,595,227	2.5 %
Total	**504,331,380**	**100 %**

In the implementation of the Lithuanian Government's Resolution No. 826 of 4 July 2012 *Regarding the establishment of the private limited liability company and investment of state-owned assets*, EPSO-G UAB was established on 19 July 2012 and registered with the Register of Legal Entities on 25 July 2012 to which the Company's shares owned by Visagino Atominė Elektrinė UAB were transferred on 28 September 2012 as stipulated by the mentioned Resolution. The ultimate controlling shareholder of EPSO-G UAB is the Ministry of Energy of the Republic of Lithuania.

The Company's shares are traded on NASDAQ OMX Vilnius Stock Exchange.

1. General information (continued)

As of the date of these financial statements the Group included LITGRID and its directly controlled subsidiaries, which are listed below.

Company	Address of the company's registered office	The Group's shareholding at 31 December 2012	The Group's shareholding at 31 December 2011	Profile of activities
BALTPOOL UAB	A. Juozapavičiaus g. 13, Vilnius, Lithuania	67%	67%	Operator of energy source exchange and operator of markets of natural gas, auxiliary instruments and biofuel
TETAS UAB	Senamiesčio g. 102B, Panevėžys, Lithuania	61%	61%	Transformer substation, distribution station design, construction, repair and maintenance services

The structure of the Group's investments in the associates and the jointly controlled entity as at 31 December 2012 and 2011 was as follows:

Company	Address of the company's registered office	The Group's shareholding at 31 December 2012	The Group's shareholding at 31 December 2011	Profile of activities
Technologijų ir Inovacijų Centras UAB	Žvejų g. 14, Vilnius, Lithuania	20%	20%	IT services
Elektros Tinklo Paslaugos UAB	Motorų g. 2, Vilnius, Lithuania	25%	29%	Power network and related equipment repair, maintenance and construction services
LitPol Link Sp.z.o.o	Wojciecha Gorskiego 900-033 Warsaw, Poland	50%	50%	Designing of electricity transmission interconnection facilities

As at 31 December 2012, the Group had 701 employees (31 December 2011: 623 employees), whereas the Company had 203 employees (31 December 2011: 205 employees).

The Company's shareholders have a statutory right to approve or reject these financial statements and require the preparation of a new set of financial statements.

2. Basis of preparation

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

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment which is recorded at revalued amount, less accumulated depreciation and estimated impairment loss, and available-for-sale financial assets which are carried at fair value.

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

3. Accounting policies

Except as described below in paragraph 'New and amended standards, and interpretations', the accounting policies applied in the preparation of these financial statements are consistent with those that were applied in the previous financial year.

3.1. New and amended standards, interpretations

a) Amendments to standards and interpretations effective in 2012:

There are no IFRSs or IFRS interpretations mandatory for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group and the Company.

b) Amendments to existing standards and interpretations effective in 2012, but not relevant to the Company and the Group

The following amendments to existing standards and interpretations have been adopted by the European Union (EU) and are mandatory for accounting periods beginning on or after 1 January 2011, but are not currently relevant to the Company's and the Group's operations:

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2012). None of the amendments had a material impact on the Group's and Company's financial statements.

There are no other new standards or amendments to standards and interpretations mandatory for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group and the Company.

c) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group and the Company

The following standards and amendments to existing standards have been published:

IFRS 10, 'Consolidated financial statements' (effective for annual periods beginning on 1 January 2014). 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'. The Group and the Company do not expect these amendments to have any impact on the financial statements.

IFRS 11, 'Joint arrangements' (effective for annual periods beginning on or after 1 January 2014). The Standard replaces IAS 31 'Interests in joint ventures' and SIC-13 'Jointly controlled entities—non-monetary contributions by ventures'. The Group and the Company do not expect these amendments to have any impact on the financial statements.

IFRS 12, 'Disclosure of interest in other entities' (effective for annual periods beginning on or after 1 January 2014). The Standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The Group and the Company 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). The Group and the Company do not expect these amendments to have any impact on the financial statements.

IAS 27, 'Separate financial statements' (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014). The Group and the Company are currently assessing the impact of this Standard on the financial statements.

IAS 28, 'Investments in associates and joint ventures' (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014). The Group and the Company are currently assessing the impact of this Standard on the financial statements.

IAS 19 (amendment), 'Employee benefits' (effective for annual periods beginning on 1 January 2013). The Group and the Company do not expect these amendments to have any impact on the financial statements.

Offsetting financial assets and financial liabilities – Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014). The Group and the Company do not expect these amendments to have a material impact on the financial statements.

Disclosures – Offsetting financial assets and financial liabilities – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 January 2013). The Group and the Company do not expect these amendments to have a material impact on the financial statements.

There are no other new standards, amendments to standards or interpretations that are not yet effective that would be expected to have a material impact on the Group and the Company.

3.2 Consolidation

Subsidiary is an entity directly or indirectly controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Subsidiaries are consolidated from the date from which effective control is transferred to the Company. They are de-consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies are eliminated.

3.3 Business combinations between entities under common control and mergers involving entities under common control

Business combinations between entities under common control
IFRS 3, 'Business combinations' is not applied to business combinations between entities under common control, therefore such business combinations are accounted for using the predecessor method of accounting. The Group does not restate assets and liabilities to their fair value as at the acquisition date, instead the Group combines the acquired assets and liabilities at their carrying amounts. No goodwill arises and the excess of the consideration paid or the carrying amount of net assets transferred over the consideration received or the carrying amount of net assets acquired is recorded directly in equity in the acquiree's financial statements. Business combinations between entities under common control are accounted for prospectively from the date on which the business combination occurred.

Mergers involving entities under common control
Mergers are accounted for using the predecessor method of accounting. The merged assets and liabilities are not restated to their fair value, instead assets and liabilities are combined at their carrying amounts. The amounts of assets, liabilities, income and expenses of entities merged are combined retrospectively, i.e. for all the periods presented in the financial statements.

3.4 Investments in subsidiaries in the Company's separate financial statements

In the parent company's statement of financial position investments in subsidiaries are stated at cost less impairment, where the investment's carrying amount in the parent's statement of financial position exceeds its estimated recoverable amount.

3.5 Investments in associates and jointly controlled entities

An associate is an entity over which the Group/Company has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence generally accompanies a shareholding of between 20% to 50% of the voting rights. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

In the consolidated financial statements associates and jointly controlled entities are accounted for using the equity method of accounting. Under the equity method, investments in associates or jointly controlled entities are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in profit (loss), and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of investment.

The Group's investment in associate and jointly controlled entity includes goodwill determined as at the date of acquisition.

Losses of an associate or jointly controlled entity in excess of the Group's interest in that associate/jointly controlled entity, including any other unsecured receivables, are not recognised, unless the Group had incurred legal or constructive obligations or made payments on behalf of the associate/jointly controlled entity.

Unrealised gain on transactions between the Group and associates and jointly controlled entities is eliminated to the extent of the Group's interest in the associate or jointly controlled entity. Unrealised loss is also eliminated, unless it provides evidence of an impairment of assets transferred.

If the Group's ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.
Gain or loss on decrease in the Group's ownership interest in an associate is recognised as profit or loss.

In the parent company's statement of financial position investments in associates and jointly controlled entities are stated at cost less impairment losses, where the investment's carrying amount in the parent's statement of financial position exceeds its estimated recoverable amount.

3.6 Property, plant and equipment and intangible assets

Assets with the useful life over one year are classified as property, plant and equipment. All property, plant and equipment is shown at revalued amounts, based on periodic (at least every 5 years) valuations performed by independent valuers, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

Increases in the carrying amount arising on the first revaluation of property, plant and equipment are credited to revaluation reserve directly in equity and decreases are recognised in the profit and loss account. Increases in the carrying amount arising on the subsequent revaluation of property, plant and equipment are credited to revaluation reserve, whereas decreases in the carrying amount that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Revaluation increases in property, plant and equipment value that offset previous decreases are taken to the profit and loss account. All other increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax

Construction in progress represents non-current fixed assets under construction. The cost of such assets includes design, construction works, plant and equipment being installed, and other directly attributable costs.

Intangible assets
Intangible assets are initially recognised at cost. Intangible assets are recognised only if they are expected to provide economic benefit to the Group and the Company in future periods and their cost can be measured reliably. Subsequently, intangible assets are carried at cost, less accumulated amortisation and accumulated impairment losses, if any (the Group/Company does not have intangible assets with indefinite useful lives).

Depreciation and amortisation
Depreciation (amortisation) of property, plant and equipment and intangible assets, except land and construction in progress, is calculated using the straight-line method over estimated useful lives of the asset. The estimated useful lives, residual values and depreciation/amortisation method are reviewed at each year-end to ensure that they are consistent with the expected pattern of economic benefits from these assets. The effect of changes in estimates, if any, is accounted for on a prospective basis. Estimated useful lives of property, plant and equipment and intangible assets are as follows:

Categories of property, plant and equipment and intangible assets	**Useful lives (in years)**
Buildings	20 - 75
Plant and machinery, whereof:	
- Constructions of transformer substations	30
- Structures, machinery and equipment, whereof:	
- 330, 110, 35 kV electricity transmission lines	40 - 55
- 330, 110, 35, 6-10 kV electricity distribution equipment	30 - 35
- 330, 110, 35, 6-10 kV capacity transformers	35
- electricity and communication devices	20 - 25
- electricity equipment, whereof:	15 - 35
- Relay security and automation equipment	15 - 35
- Technological and dispatch control equipment	8
- Other equipment	5 - 20
Motor vehicles	4 - 10
Other property, plant and equipment, whereof:	
- computer hardware and communication equipment	3 - 10
- inventory, tools	4 - 10
Intangible assets	3 - 4

Gain or loss on disposal of non-current assets is calculated as the difference between the proceeds from sale and the book value of the disposed asset and is recognised in the statement of comprehensive income.

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

3.7 Impairment of property, plant and equipment and intangible assets

At each reporting date, the Group and the Company review the carrying amounts of their property, plant and equipment and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of revaluation reserve.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (without exceeding the amount of previous impairment).

3.8 Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables, and available-for-sale financial assets. The classification of financial assets is determined at initial recognition.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group or the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus, in the case of investments not carried at fair value through profit or loss, directly attributable transaction costs.

The Company's/Group's financial assets include cash and cash equivalents, short-term bank deposits, trade and other accounts receivable, and investments in securities.

The subsequent accounting for financial assets depends on their classification as follows:

<u>Available-for-sale financial assets</u>
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other categories. Such assets are recognised as non-current assets, except where the term of investment expires or management have an intention to sell it within 12 months after the date of preparation of the financial statements.

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

When available-for-sale financial assets are disposed or impaired, the related accumulated fair value revaluation previously recognised directly in equity is recognised in profit or loss.

After initial recognition available-for-sale financial assets are measured at fair value based on available market prices or quotes of brokers. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. The result of revaluation of available-for-sale securities is recognised in revaluation reserve of financial assets, reported under equity.

<u>Held-to-maturity financial assets.</u>
Financial assets with fixed or determinable payments and fixed maturity, quoted in an active market, are classified as held-to-maturity when an entity has a positive intention and ability to hold to maturity. Held-to-maturity financial assets are measured at amortised cost using the effective interest method.

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

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

For the purpose of the cash flow statement, cash and cash equivalents comprise cash balances in bank accounts, deposits in current accounts and other short-term highly liquid investments with original maturities of 3 months or less.

Effective interest rate method
Effective interest rate method is used to calculate amortised cost of financial assets and allocate interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

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

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

Derecognition of financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired;
- the Group/Company has transferred the rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3.9 Inventories

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realisable value. Acquisition cost of inventories includes acquisition price and related taxes, and costs associated with bringing inventory into their current condition and location. Cost is determined on the first-in, first-out (FIFO) basis. Net realisable value is the estimated selling price, less the estimated costs of completion and selling expenses.

3.10 Non-current assets held for sale

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

3.11 Trade payables and other financial liabilities, borrowings

Financial liabilities
Financial liabilities include liabilities at fair value through profit or loss and other financial liabilities.

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

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised using the effective interest rate method as disclosed in paragraph 3.8 of the notes to the financial statements.

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

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

Trade payables
Trade payables represent the commitments to pay for goods and services acquired from suppliers in the ordinary course of business.

Trade payables are classified as current liabilities if the term of their settlement is not longer than one year, otherwise they are included in non-current liabilities.

3.12 Dividend distribution

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

3.13 Foreign currency

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

Foreign currency transactions are accounted for using the exchange rates prevailing at the dates of transactions as established by the Bank of Lithuania. Monetary assets and liabilities are translated into the litas using the exchange rate prevailing at the date of preparation of financial statements. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the statement of comprehensive income of the reporting period.

With effect from 2 February 2002, Lithuanian litas has been pegged to the euro at the rate of 3.4528 litas to 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

3.14 Grants

Asset-related grants
Government and the European Union grants received in the form of property, plant and equipment or intended for the purchase of property, plant and equipment are considered as asset-related grants. Grants are initially recorded as liability at fair value of the asset received and subsequently recognised as income, reducing the depreciation charge of related asset over the expected useful life of the asset.

Public service obligation (hereinafter "PSO") service fees paid to the Company for the development and implementation of strategic plans are recognised as asset-related grants.

3.15 Provisions

Provisions are recognised when the Group/Company has a legal obligation or irrevocable commitment as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance costs.

3.16 Employee benefits

(a) Social security contributions

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

(b) Termination benefits

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

(c) Bonus plans

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

(d) Payments to employees of retirement age
Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws. A liability for such payments is recognised in the balance sheet and it reflects the present value of these payments at the date of the financial statements. The aforementioned non-current liability for payments to employees at the date of the financial statements is estimated with reference to actuary valuations using the projected relative unit method. The present value of the defined non-current liability for payments to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which payments to employees are expected to be made and with maturity similar to that of the related liability.

3.17 Leases

Lease is recognised as financial lease, when all the risks and rewards of ownership of the leased item are transferred to the lessee. Operating lease is the lease that cannot be classified as finance lease.

The Group and the Company as a lessor
Operating lease income is recognised on a straight-line basis over the lease term.

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

3.18 Segment reporting

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

3.19 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with a transaction will flow to the Group/Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax and discounts. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from electricity transmission, capacity reserve services and trade in balancing/regulating electricity
Revenue from electricity transmission, capacity reserve services and trade in balancing/regulating electricity is recognised after services have been rendered or electricity has been sold, i.e. all risks and rewards associated with the transaction have been transferred to the buyer, or the services have been rendered.

The Group does not recognise revenue and expenses from electricity trading in power exchange, administered by the subsidiary BALTPOOL UAB until 18 June 2012, with respect to those transaction in which it acts as an agent.

Tariffs regulation
Tariffs for the electricity transmission 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. Specific prices and tariffs for the transmission services are established by the supplier of the service within the limits approved by the Commission.

Tariffs of electricity sold by the producers and independent suppliers as well as tariffs for capacity reserves are not regulated except the cases when the producer or supplier holds more than 25 per cent of the market. In latter case, the tariff setting is supervised by the Commission.

The Group purchases a capacity reserve service from electricity suppliers in accordance with capacity reserve agreements and subsequently renders this service to the distribution system operators and electricity consumers using a tariff established by the Commission. The Group recognises gross revenue as it acts as a principal in the provision of these services.

Connection of new consumers and producers to electricity transmission network
From 2010 (applicable to assets received from customers on or after 1 July 2009) to the date of spin-off, Lietuvos Energija AB, later on the Company, recognises fees received for connection of new consumers and producers to the electricity network as income immediately upon the connection of a new consumer or producer, provided the price for electricity payable in future by the newly connected consumer or producer for the services rendered /purchased by the Company/Group does not differ from that payable by other consumers or producers who had not paid such connection fees.

Before 1 July 2009, fees received by Lietuvos Energija AB for connection of new consumers and producers to the network were initially recognised as deferred income and subsequently recognised as income on a proportionate basis over the same period during which the related costs of asset construction were recognised. The related costs comprising the acquisition cost of property, plant and equipment and other costs were capitalised and depreciated over the estimated useful life of the assets capitalised.

Repair service income
Income under individual contracts/projects with customers, for instance for repair services, is recognised using the stage of completion method, based on which project costs actually incurred are compared against total estimated project costs. The probable change in profitability is recognised in the statement of comprehensive income when such change is established. The projects are reviewed regularly and the provisions are established when it is determined that the transaction will result in loss.

Other income
Interest income is recognised on accrual basis considering the outstanding balance of debt and the applicable interest rate. Interest received is recorded in the statement of cash flows as cash flows from investing activities.
Gain from sale and lease of property, plant and equipment is recognised by the Group and the Company as other revenue.

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

Recognition of expenses
Expenses are recognised in the statement of comprehensive income as incurred by the accrual method.

Recognition of income and expenses from PSO services
Under the PSO scheme approved by Order No. 1-283 of 8 October 2010 of the Minister of Energy of the Republic of Lithuania, the Company acts as an administrator of PSO service fees, i.e. only collects and disburses PSO service fees.

PSO service fees are the fees paid to the suppliers of electricity under the public service obligations scheme, with the list of such suppliers established by the Lithuanian Government or other institution authorised by it. The annual quantities of PSO service fees are established by the National Control Commission for Prices and Energy (the Commission). These fees are collected from electricity consumers, using the tariff for PSO services established by the Commission as a difference between PSO service fees collected and disbursed by the Company/Group during the previous calendar year.

In 2012 and 2011 the Company/Group recognises as revenue from PSO services the following:

- PSO service fees paid by the Commission to the Company for the connection of power generation facilities, using wind, biomass, solar energy or hydro energy in the process of power generation, to transmission networks, for optimisation, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electric power from producers using the renewable energy resources;
- PSO service fees paid by the Commission for balancing electricity produced from the renewable energy resources;
- The difference between the factual balancing costs of the PSO service fees paid by the Commission to the Company for the current year electricity that was generated from the renewable energy resources and the PSO service fees paid by the Commission to the Company;
- PSO service fees paid by the Commission to the Company to cover administration costs of PSO service fees.

All other PSO service fees collected by the Company/Group are not recognised as income.

3.20 Accounting policy for PSO services fees when the Company acts as an administrator of PSO service fees

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 tracks these transactions.

Seeking to improve the accuracy of presentation of the Company's/Group's financial position, financial result and cash flows and to reflect the actual substance of PSO administration activities the Company/Group recognises as revenue only the items described in Note 3.19 and recognises the difference between collected and disbursed PSO service fees being administered as receivables(payables). Given that the Company/Group acts only as an agent 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 other accounts receivable/other accounts payable as "difference between PSO service fees received and disbursed". Receivables for PSO were reclassified from trade receivables to other accounts receivable, and payables for PSO were reclassified from trade payables to other accounts payable. Receivables for electricity sold in the power exchange, where the Group acted as an agent, were reclassified from trade receivables to other accounts receivable, whereas payables for electricity purchased in the power exchange, where the group acted as an agent, were reclassified from trade payables to other accounts payable.

3.21 Borrowing costs

Borrowing costs that are directly attributable to the production, getting ready for use or sale of an asset that necessarily takes a substantial period of time to produce, get ready for its intended use or sale, are capitalised as part of the cost of that asset until the asset is ready for use or sale in full. Interest income on the temporary investment of borrowed funds until they will be used for the acquisition of the asset is deducted from the cost of the asset.

Other borrowing costs are recognised as expenses in the statement of comprehensive income during the period when they are incurred.

3.22 Income tax

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

Income tax
Current tax charges are calculated on current profit before tax, as adjusted for certain non-deductible expenses/non-taxable income. Income tax is calculated using the tax rate effective as at the date of issue of the financial statements. Income tax rate of 15% was used in 2012 and 2011.

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

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

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

Current income tax and deferred income tax
Current income tax and deferred income tax are recognised as income or expenses and included in net profit or loss for the reporting period, except for the cases when tax arises from a transaction or event that is recognised directly in equity or in other comprehensive income, in which case taxes are also recorded in equity and other comprehensive income respectively.

3.23 Earnings per share

Earnings per share are calculated by dividing the net profit for the period attributed to shareholders by the weighted average number of ordinary shares in issue during the period. When the number of shares changes and such change does not result in change of economic resources, the weighted average number of ordinary shares in issue is adjusted in proportion to change in the number of shares as if that change had occurred in the beginning of the previous period.

The Company has no dilutive potential shares, therefore its basic earnings per share are the same as dilutive earnings per share.

3.24 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.
A contingent asset is not recognised in the financial statements but disclosed when an inflow of income or economic benefits is probable.

3.25 Subsequent events

Subsequent events that provide additional information on the Group's and the Company's financial position at the date of the financial statements (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in notes to the financial statements, provided their effect is material.

3.26 Offsetting

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

3.27 Critical accounting estimates

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

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.

Revaluation and impairment of property, plant and equipment
During the unbundling process that took place in 2010 the Company took over property, plant and equipment from Lietuvos Energija AB. The fair value of property, plant and equipment, depending on the type of asset, of Lietuvos Energija AB as at 31 December 2008 was determined by independent valuers who used either method of comparative prices, or depreciated replacement value, or discounted cash flows methods to determine the fair value of the assets.

As at 31 December 2009, management of Lietuvos Energija AB revised the carrying amounts of property, plant and equipment. Having assessed the fall in construction cost indices in respect of relevant categories of assets published by the Lithuanian Statistics Department for 11 months of 2009, 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, which had been revalued under the depreciated replacement cost method as at 31 December 2008.

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

According to the amendment to the above-mentioned Law effective from 1 June 2009, the price caps of electricity transmission services are 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 Commission 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 Government's Resolution No. 1142 of 9 September 2009 *On the methodology for determination of the value of assets used in licensed activities of the electricity service provider*, the determination of the price caps for electricity transmission services is to include the value of assets used in licensed activities of the service provider, which is equal to the net book value (carrying amount) of property, plant and equipment as at 31 December 2002 as increased by the amount of capital expenditures implemented and agreed with the Commission and reduced by the depreciation amount calculated pursuant to the procedure stipulated in the Lithuanian Law on Corporate Income Tax.

Due to the reasons specified, the values of property, plant and equipment reported in these financial statements may materially differ from those that would have been determined if the valuation of assets and assets profitability test had been 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 operation for the reporting period and the shareholders' equity reported in the financial statements for the years 2012 and 2011.

Based on management's decision, valuation of fair values of property, plant and equipment as at 31 December 2010, 31 December 2011 and 31 December 2012 was not performed by independent valuers, as a substantial reorganisation of the whole energy sector took place in 2010 through to 2012 (in 2010 the Company was separated from Lietuvos Energija AB, in 2011 it was merged with LITGRID AB and in 2012 it was separated from Visagino Atominė Elektrinė UAB group). The management plans to perform independent valuation of assets in 2013.

Useful lives of property, plant and equipment
When assessing the remaining useful life of property, plant and equipment, management takes into consideration the conclusions provided by employees responsible for technical maintenance of assets as to the actual useful lives of property, plant and equipment, as well as the manufacturer's technical documentation.

The underlying principles used for other significant 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 carrying amount of assets and liabilities will be subject to major adjustments in the following reporting 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 31 December 2012, as described above.

4. Intangible assets

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

Group	Patents and licenses	Computer software	Other intangible assets	Total
At 31 December 2010				
Opening net book amount	-	1,722	28	1,750
Additions	-	739	14	753
Amortisation charge	-	(735)	(9)	(744)
Net book amount at 31 December 2011	**-**	**1,726**	**33**	**1,759**
Cost	1	5,228	48	5,277
Accumulated amortisation	(1)	(3,502)	(15)	(3,518)
Net book amount at 31 December 2011	**-**	**1,726**	**33**	**1,759**
Opening net book amount	-	1,726	33	1,759
Additions	-	926	26	952
Write-offs	-	(41)	0	(41)
Transfer from PP&E to intangible assets	-	24	0	24
Transfer between groups	60	(60)	0	0
Amortisation charge	-	(928)	(17)	(945)
Net book amount at 31 December 2012	**-**	**1,647**	**42**	**1,749**
Cost	61	5,187	74	5,322
Accumulated amortisation	(1)	(3,540)	(32)	(3,573)
Net book amount at 31 December 2012	**60**	**1,647**	**42**	**1,749**

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

Company	Patents and licenses	Computer software	Other intangible assets	Total
At 31 December 2010				
Opening net book amount	-	1,675	28	1,703
Additions	-	442	14	456
Amortisation charge	-	(716)	(9)	(725)
Net book amount at 31 December 2011	**-**	**1,401**	**33**	**1,434**
Cost	1	4,879	48	4,928
Accumulated amortisation	(1)	(3,478)	(15)	(3,494)
Net book amount at 31 December 2011	**-**	**1,401**	**33**	**1,434**
Opening net book amount	-	1,401	33	1,434
Additions	-	850	-	850
Write-offs	-	(41)	-	(41)
Transfer from PP&E to intangible assets	-	24	-	24
Reclassification between categories	60	(60)	-	0
Amortisation charge	-	(823)	(12)	(835)
Net book amount at 31 December 2012	**60**	**1,351**	**21**	**1,432**
Cost	61	4,762	48	4,871
Accumulated amortisation	(1)	(3,411)	(27)	(3,439)
Net book amount at 31 December 2012	**60**	**1,351**	**21**	**1,432**

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	Construc-tion in progress	Total
At 31 December 2010							
Opening net book amount	1,961	36,488	1,943,993	1,829	45,563	34,285	2,064,119
Additions	-	-	508	301	579	72,621	74,009
Revaluation	-	462	-	-	-	-	462
Disposals	-	-	-	(16)	-	-	(16)
Write-offs	-	(105)	(13,168)	-	(170)	(176)	(13,619)
Impairment of assets	-	(7)	-	-	-	-	(7)
Transfers to inventories	-	-	-	-	-	(26)	(26)
Reclassification between categories	-	326	32,939	-	1,086	(34,351)	-
Depreciation charge	-	(2,313)	(123,049)	(476)	(8,897)	-	(134,735)
Net book amount at 31 December 2011	**1,961**	**34,851**	**1,841,223**	**1,638**	**38,161**	**72,353**	**1,990,187**
Cost or revaluated amount	1,961	39,539	2,070,777	2,395	87,286	72,353	2,274,311
Accumulated depreciation	-	(4,543)	(228,329)	(757)	(49,125)	-	(282,754)
Accumulated impairment	-	(145)	(1,225)	-	-	-	(1,370)
Net book amount at 31 December 2011	**1,961**	**34,851**	**1,841,223**	**1,638**	**38,161**	**72,353**	**1,990,187**
Opening net book amount	1,961	34,851	1,841,223	1,638	38,161	72,353	1,990,187
Additions	-	-	242	42	9,292	107,242	116,818
Revaluation	-	83	-	-	-	-	83
Write-offs	-	(31)	(1,432)	-	(3)	(223)	(1,689)
Transfer to intangible assets	-	-	-	-	(24)	-	(24)
Transfer from inventories	-	-	3	-	8	38	49
Reclassification between categories	-	2,013	49,658	-	3,080	(54,751)	-
Depreciation charge	-	(2,190)	(116,093)	(498)	(8,271)	6	(127,046)
Net book amount at 31 December 2012	**1,961**	**34,726**	**1,773,601**	**1,182**	**42,243**	**124,665**	**1,978,378**
Cost or revaluated amount	1,961	41,589	2,116,494	2,436	99,282	124,659	2,386,421
Accumulated depreciation	-	(6,718)	(341,668)	(1,254)	(57,039)	6	(406,673)
Accumulated impairment	-	(145)	(1,225)	-	-	-	(1,370)
Net book amount at 31 December 2012	**1,961**	**34,726**	**1,773,601**	**1,182**	**42,243**	**124,665**	**1,978,378**

5. Property, plant and equipment (continued)

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

Company	Land	Buildings	Structures and machinery	Other PP&E	Construction in progress	Total
At 31 December 2010						
Opening net book amount	1,961	35,636	1,943,758	43,606	34,686	2,059,647
Additions	-	-	100	435	72,630	73,165
Write-offs	-	(105)	(13,168)	(170)	(176)	(13,619)
Transfers to inventories	-	-	-	-	(26)	(26)
Reclassification between categories	-	326	32,939	1,086	(34,351)	-
Depreciation charge	-	(2,244)	(123,002)	(8,384)	-	(133,630)
Net book amount at 31 December 2011	**1,961**	**33,613**	**1,840,627**	**36,573**	**72,763**	**1,985,537**
Cost or revaluated amount	1,961	38,019	2,069,995	84,523	72,763	2,267,261
Accumulated depreciation	-	(4,261)	(228,143)	(47,950)	-	(280,354)
Accumulated impairment	-	(145)	(1,225)	-	-	(1,370)
Net book amount at 31 December 2011	**1,961**	**33,613**	**1,840,627**	**36,573**	**72,763**	**1,985,537**
Opening net book amount	1,961	33,613	1,840,627	36,573	72,763	1,985,537
Additions	-	-	201	8,775	107,767	116,743
Write-offs	-	(31)	(1,432)	(3)	(223)	(1,689)
Transfer to intangible assets	-	-	-	(24)	-	(24)
Transfer from inventories	-	-	3	8	38	49
Reclassification between categories	-	2,013	49,658	3,080	(54,751)	-
Depreciation charge	-	(2,082)	(116,004)	(7,749)	-	(125,835)
Net book amount at 31 December 2012	**1,961**	**33,513**	**1,773,053**	**40,660**	**125,594**	**1,974,781**
Cost or revaluated amount	1,961	39,986	2,115,671	96,001	125,594	2,379,213
Accumulated depreciation	-	(6,328)	(341,393)	(55,341)	-	(403,062)
Accumulated impairment	-	(145)	(1,225)	-	-	(1,370)
Net book amount at 31 December 2012	**1,961**	**33,513**	**1,773,053**	**40,660**	**125,594**	**1,974,781**

Write-offs mainly represent derecognition of replaced part of asset upon its reconstruction.

As at 31 December 2012 and 2011, the Group/Company had significant contractual commitments to purchase property, plant and equipment to be fulfilled in later periods.

	At 31 December 2012	At 31 December 2011
Interconnection between the electricity transmission systems of Lithuania and Sweden (NORDBALT)	597,783	620,783
Transformer substations	73,386	60,778
Construction of 330 kV overhead transmission line Telšiai-Klaipėda	43,360	58,210
Cabling of 110 kV overhead transmission line near Viršuliškės	4,318	-
Interconnection between the electricity transmission systems of Lithuania and Poland (LitPolLink)	2,165	1,706
Replacement of 110 kV overhead transmission line in the section Marios-Juodkrantė	107	-
Other	4,405	901
Total	**725,524**	**742,378**

5. Property, plant and equipment (continued)

The table below includes the net book amounts of the Group's and the Company's property, plant and equipment that would have been recognised, had these assets been carried at historical cost as at 31 December 2012 and 2011:

Group	Land	Buildings	Structures and machinery	Motor vehicles	Other PP&E	Construc-tion in progress	Total
Net book amount							
	1,794	**30,784**	**1,554,544**	**1,183**	**41,730**	**125,888**	**1,755,923**
At 31 December 2012							
At 31 December 2011	**1,794**	**30,575**	**1,602,811**	**1,639**	**36,952**	**73,077**	**1,746,848**

Company	Land	Buildings	Structures and machinery	Motor vehicles	Other PP&E	Construc-tion in progress	Total
Net book amount							
At 31 December 2012	**1,794**	**30,034**	**1,553,996**	**-**	**40,148**	**125,888**	**1,751,860**
At 31 December 2011	**1,794**	**29,792**	**1,602,215**	**-**	**35,365**	**73,077**	**1,742,243**

6. Investments in subsidiaries (for the Company) and investments in associates and jointly controlled entities (for the Company and the Group)

Investments in subsidiaries in the Company's financial statements

As at 31 December 2012 and 2011, the Company had direct control over the following subsidiaries:

Subsidiary At 31 December 2012	Investment cost	Ownership interest (%)	Impairment	Carrying amount
TETAS UAB	8,290	61	-	8,290
BALTPOOL UAB	318	67	-	318
Total	**8,608**		**-**	**8,608**

Subsidiary At 31 December 2011	Investment cost	Ownership interest (%)	Impairment	Carrying amount
TETAS UAB	8,290	61	-	8,290
BALTPOOL UAB	318	67	-	318
Total	**8,608**		**-**	**8,608**

All subsidiaries were acquired by way of spin-off.

On 18 May 2011, the Company's ownership interest in its subsidiary BALTPOOL UAB decreased from 100% to 67% when Klaipėdos Nafta AB, a company controlled by the Lithuanian Government, acquired all the newly issued shares of BALTPOOL UAB.

6. Investments in subsidiaries (for the Company) and investments in associates and jointly controlled entities (for the Company and the Group) (continued)

Investments in associates and jointly controlled entities in the Company's and the Group's financial statements

Movement in the account of investments in associates and jointly controlled entities is given in the table below:

	Group 2012	Company 2012	Group 2011	Company 2011
Opening balance	20,804	21,332	20,323	21,332
Gain on change in ownership interest in associate	232	-	1,699	-
Share of comprehensive income of associate	-	-	(1,639)	-
Share of profit/(loss) of associates and jointly controlled entities	636	-	419	-
Transferred to assets held for sale	(5,620)	(4,731)	-	-
Other	-	-	2	-
Closing balance	**16,052**	**16,601**	**20,804**	**21,332**

Investment in associate reclassified to assets held for sale
Under the share exchange agreement concluded between LITGRID and LESTO AB on 7 January 2013, LITGRID transferred shares of Elektros Tinklo Paslaugos UAB (Note 37) held with the ownership right. Accordingly, the amount corresponding to the value of these shares was reclassified to the category of assets held for sale. Assets held for sale are recorded at carrying amount as this amount is lower than the fair value of shares, less estimated costs to sell.

On 6 January 2012, the Company's associate Elektros Tinklo Paslaugos UAB increased its share capital by non-monetary contributions of LESTO AB (member of Visagino Atomine Elektrine UAB Group). As a result, the Company's ownership interest in the associate decreased from 29% to 25%. Gain on transfer of ownership interest in associate was recognised in the Group's financial statements and was calculated as follows:

	Group 2012
Contributions of other shareholders to the share capital of associate	1,013
Share of net assets transferred	(781)
Gain on change in ownership interest in associate	**232**

On 16 December 2011, the Company's associate Technologijų ir Inovacijų Centras UAB increased its share capital by non-monetary contributions of Lietuvos Energija AB (member of Visagino Atomine Elektrine UAB Group). As a result, the Company's ownership interest in the associate decreased from 35% to 20%. Gain on transfer of ownership interest in associate was recognised in the Group's financial statements and was calculated as follows:

	Group 2011
Contributions of other shareholders to the share capital of associate	7,007
Share of net assets transferred	(5,308)
Gain on change in ownership interest in associate	**1,699**

The financial positions and results of operations of associates and jointly controlled entities as at 31 December 2012 and for the year then ended:

	Assets	Liabilities	Sales revenue	Net profit (loss)
Technologijų ir Inovacijų Centras UAB	68,106	11,350	65,427	3,001
Elektros Tinklo Paslaugos UAB	37,434	14,978	71,707	(980)
LitPol Link Sp.z.o.o	1,441	458	2,873	37

6. Investments in subsidiaries (for the Company) and investments in associates and jointly controlled entities (for the Company and the Group) (continued)

The financial positions and results of operations of associates and jointly controlled entities as at 31 December 2011 and for the year then ended:

	Assets	Liabilities	Sales revenue	Net profit (loss)
Technologijų ir Inovacijų Centras UAB	77,889	7,337	44,850	(160)
Elektros Tinklo Paslaugos UAB	28,867	8,522	51,876	1,114
LitPol Link Sp.z.o.o	1,398	459	2,834	307

7. Financial assets held for sale

As at 31 December 2012 and 2011, the Group's and the Company's other financial assets classified as held for sale comprised the shares of the following entities:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
NordPool Spot	6,638	6,638	-	-
NT Valdos UAB	1,084	1,084	1,084	1,084
Total	**7,722**	**7,722**	**1,084**	**1,084**

On 1 August 2012, the Company acquired 2% of shares of Nord Pool Spot AS – the power exchange operator for Nordic and Baltic countries.

The value of financial assets determined with reference to the estimated fair value, less disposal costs, (measured using discounted cash flows method) did not significantly differ from the carrying amount at the end of the financial year.

8. Inventories

The Group's and the Company's inventories comprised as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Materials and consumables, production in progress and finished goods at acquisition (production) cost	14,526	2,818	4,873	2,594
Goods for resale at acquisition cost	1	1	1	1
Less: write-down to net realisable value	(524)	(381)	(672)	(381)
Total	**14,003**	**2,438**	**4,202**	**2,214**

The Group's and the Company's inventories recognised as expenses during the year ended 31 December 2012 amounted to LTL 37,240 thousand and LTL 468 thousand, respectively (31 December 2011: LTL 335 thousand and LTL 306 thousand, respectively).

Movements in impairment account of inventories during the year ended 31 December 2012 and 2011 are shown in the table below:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Opening balance	672	381	661	381
Write-down of inventories during the reporting period	(148)	-	11	-
Closing balance	**524**	**381**	**672**	**381**

Impairment charges were included in other expenses in the statement of comprehensive income.

9. Trade receivables

As at 31 December 2012 and 2011, trade receivables of the Group and the Company were as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Receivables from sales of electricity	44,888	44,889	37,640	37,639
Receivables for connection of new customers	6,757	6,757	-	-
Receivables for contractual works and other services	20,509	-	7,527	-
Unbilled revenue from sales of electricity and other services			143	143
Receivables from long-term trades in power exchange	2	-	-	-
Total	**72,156**	**51,646**	**45,310**	**37,782**

The fair value of current trade receivable approximates their carrying amount.

As at 31 December 2012 and 2011, the Group and the Company had no receivables that were impaired.

The ageing analysis of the Group's and the Company's trade receivables that were not overdue or overdue, but not impaired is given below:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Not overdue	59,347	49,302	34,696	37,533
Overdue up to 30 days	9,109	1,141	8,485	249
Overdue from 30 to 60 days	2,315	998	1,729	-
Overdue from 60 to 90 days	380	59	400	-
Overdue more than 90 days	1,005	146	-	-
Total	**72,156**	**51,646**	**45,310**	**37,782**

10. Other accounts receivable

As at 31 December 2012 and 2011, other accounts receivable of the Group and the Company were as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Administered PSO fees receivable	88,148	88,148	72,433	72,433
Receivables from participants of the power exchange	-	-	9,933	-
Accrued income for PSO services rendered	6,711	6,711	4,429	4,429
Accrued interest receivable	326	326	1,281	1,281
Receivables for lease of assets	618	629	-	-
Other receivables	37	27	-	-
VAT receivable from the state budget	-	-	19	-
Other accrued receivables	333	-	-	-
Other receivables	861	3	819	1,038
Less: impairment	-	-	(3)	-
Total	**97,034**	**95,844**	**88,911**	**79,181**

10. Other accounts receivable (continued)

The fair value of current other accounts receivable (financial assets) approximates their carrying amount.

The ageing analysis of the Group's and the Company's other accounts receivable that were not overdue or overdue, but not impaired is given below:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Not overdue	89,277	88,087	83,793	74,060
Overdue up to 30 days	295	295	156	156
Overdue from 30 to 60 days	8	8	170	170
Overdue from 60 to 90 days			1,654	1,654
Overdue more than 90 days	7,454	7,454	3,141	3,141
Total	**97,034**	**95,844**	**88,914**	**79,181**

11. Time deposit

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Time deposit (contract currency the litas), maturity – March 2012	-	-	35,000	35,000
Time deposit (contract currency the litas), maturity – May 2012	-	-	20,000	20,000
Time deposit (contract currency the litas), maturity – January 2012	-	-	20,000	20,000
Time deposit (contract currency the euro), maturity – January 2012	-	-	15,000	15,000
Time deposit (contract currency the euro), maturity – June 2012	-	-	15,000	15,000
Time deposit (contract currency the euro), maturity – May 2012	-	-	7,079	7,079
Time deposit (contract currency the litas), maturity – April 2012	-	-	3,000	3,000
Total	**-**	**-**	**115,079**	**115,079**

The carrying amounts of time deposits approximate their fair values. As at 31 December 2012, the Group and the Company had no time deposits. As at 31 December 2011, the weighted average interest rate on time deposits of the Group and the Company was 2.26%.

12. Other financial assets

As at 31 December 2012 and 2011, other financial assets of the Group and the Company were as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Administered PSO fees	59,847	59,847	61,096	61,096
Funds deposited for guarantees and deposits	2,465	2,465	-	-
Monetary contributions of participants of the power exchange	1,178	-	-	-
Total	**63,490**	**62,312**	**61,096**	**61,096**

According to procedure for the administration of PSO fees approved by the Commission, the balance of PSO fees should be reported separately from other cash and cash equivalents of the Company/Group and can only be used for the disbursement of PSO service fees.

13. Held-to-maturity investments

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Lithuanian Government securities denominated in the euros with redemption date in May 2012	-	-	16,672	16,672
Lithuanian Government securities denominated in the euros with redemption date in April 2012	-	-	4,867	4,867
Total	**-**	**-**	**21,539**	**21,539**

The carrying amounts of held-to-maturity investments approximate their fair values. As at 31 December 2012, the Group and the Company had no held-to-maturity investments. As at 31 December 2011, the weighted average interest rate on held-to-maturity investments of the Group and the Company was 2.26%.

14. Cash and cash equivalents

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Cash at bank and on hand	127,387	126,097	62,635	57,131
Guarantee to secure the fulfilment of obligations	-	-	2,550	-
Total	**127.387**	**126.097**	**65,185**	**57,131**

The carrying amount of cash and cash equivalents approximates the fair value.

15. Share capital and share premium

As at 31 December 2012 and 2011, the Company's authorised share capital amounted to LTL 504,331,384 and it was divided into 504,331,384 ordinary registered shares with par value of LTL 1 each. All the shares were fully paid.

Share premium established as a result of spin-off amount to LTL 29,621 thousand. Prior to the spin-off, share premium resulted from increase in share capital of Lietuvos Energija AB and represented a difference between the nominal value of shares and consideration paid.

Capital management

Capital consists of equity recorded in the statement of financial position.

According to the requirements of the Lithuanian Law on Companies, the Company's equity must not be less than ½ of its authorised share capital. As at 31 December 2012 and 2011, the Company was not in breach of the above mentioned requirement. No other external capital requirements have been imposed on the Company.

The Company's main objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell a part of assets.

16. Revaluation reserve

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

Group	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Opening balance	**348,650**	**(52,297)**	**296,353**
Depreciation of revaluation reserve	(30,076)	4,511	(25,565)
Write-offs of property, plant and equipment	(4,504)	676	(3,828)
Increase on revaluation of property, plant and equipment	186	33	219
Balance at 31 December 2011	**314,256**	**(47,077)**	**267,179**
Opening balance	**314,256**	**(47,077)**	**267,179**
Depreciation of revaluation reserve	(23,613)	3,080	(20,533)
Write-offs of property, plant and equipment	(122)	16	(106)
Increase on revaluation of property, plant and equipment	49	(7)	42
Balance at 31 December 2012	**290,570**	**(43,988)**	**246,582**

Company	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Opening balance	**348,650**	**(52,297)**	**296,353**
Depreciation of revaluation reserve	(30,076)	4,511	(25,565)
Write-offs of property, plant and equipment	(4,504)	676	(3,828)
Balance at 31 December 2011	**314,070**	**(47,110)**	**266,960**
Opening balance	**314,070**	**(47,110)**	**266,960**
Depreciation of revaluation reserve	(23,528)	3,529	(19,999)
Write-offs of property, plant and equipment	(732)	110	(622)
Balance at 31 December 2012	**289,810**	**(43,471)**	**246,339**

17. Legal reserve and other reserves

Legal reserve
The legal reserve is established in accordance with the Lithuanian laws. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. The legal reserve can be used only to cover future losses.

Other reserves
The Ordinary General Meeting of Shareholders of LITGRID AB held on 30 April 2012 approved the proposed profit appropriation and resolved to transfer LTL 325,000 thousand from other reserves to retained earnings.

18. Dividends

During the Ordinary General Meeting of Shareholders of LITGRID AB held on 30 April 2012, the decision was made in relation to the payment of dividends in amount of LTL 390,857 thousand. Dividends per share amounted to LTL 0.775.

19. Grants

The balance of grants consists of grants related to the financing of assets acquisition. Movements in grants in 2012 and 2011 were as follows:

	Group	Company
Balance at 31 December 2010	**42,349**	**42,349**
Grants received during the period	142,196	142,196
Recognised as income during the period	(2,186)	(2,186)
Balance at 31 December 2011	**182,359**	**182,359**
Balance at 31 December 2011	**182,359**	**182,359**
Grants received during the period	124,323	124,323
Recognised as income during the period	(1,711)	(1,711)
Balance at 31 December 2012	**304,971**	**304,971**

The grants received during 2012 comprised as follows:

- amounts received from the EU structural funds to finance the reconstruction of the Company's property, plant and equipment totalling LTL 37,831 thousand (2011: LTL 6,826 thousand);
- funds received from Ignalina International Decommissioning Support Fund for the development and implementation of the project for interconnection Lithuania-Poland (LitPolLink) totalling LTL 1,492 thousand (2011: LTL 1,110 thousand);
- PSO service fees received for the development and implementation of the project for interconnection Lithuania-Sweden (NordBalt) totalling LTL 85,000 thousand (2011: LTL 92,030 thousand);

Grants received during 2011 also included amounts received from the EU Structural Funds (LTL 41,951 thousand) for the development and implementation of the project for interconnection Lithuania-Sweden (NordBalt), and funds received from other sources (LTL 279 thousand). In order to fulfill conditions of the grants, the Company has to complete NoddBalt project.

In the statement of comprehensive income for the year 2012, depreciation and amortisation charges were reduced by income of grants of LTL 1,711 thousand. In 2011, depreciation and amortisation charges were reduced by income of grants of LTL 1,867 thousand and the amount of LTL 319 thousand was recognised as other income since the grant was related to non-current assets written off.

20. Borrowings

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Cash at bank and on hand	138,112	138,112	-	-
Guarantee to secure the fulfilment of obligations	45,956	41,434	-	-
Total	**184,068**	**179,546**	**-**	**-**

On 16 July 2012, the Company's subsidiary Tetas UAB signed an overdraft agreement with SEB Bankas AB. Credit limit is LTL 5,200 thousand. The agreement expires on 31 July 2013. The overdraft is subject to a variable interest rate which is established based on a one-week Vilnius Interbank Offered Rate (VILIBOR) plus 0.59% lender's borrowing risk margin and profit margin. As at 31 December 2012, the withdrawn amount of the overdraft totalled LTL 4,522 thousand (2011: LTL 0).

On 5 October 2012, the Company signed a loan agreement with Pahjola Bank Plc. The loan amount is EUR 58,000 thousand. During the repricing period the loan is subject to annual interest rate being EURIBOR + 0.94% margin.

As at 31 December 2012, the weighted average interest rate on borrowings of the Group was 1.04%.

21. Deferred income

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Deferred income from connections of new users	13,990	13,990	14,642	14,642
Total	**13,990**	**13,990**	**14,642**	**14,642**

Deferred income from connections of new users relates to connections of new users before 1 July 2009 (see Note 3.19).

22. Other non-current accounts payable and liabilities

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Advances received from new users	5,537	5,537	6,803	6,803
Provisions for payments to employees upon retirement	726	563	633	470
Guarantee provisions	28	-	22	-
Total	**6,291**	**6,100**	**7,458**	**7,273**

Provisions for payments to employees upon retirement represent amounts calculated and to be paid according to the Lithuanian laws. Each employee of retirement age who terminates the employment upon retirement is entitled to payment of 2 monthly salaries.

Guarantee provisions represent obligations for the period of several years during which it is committed to provide guarantee repairs free of charge.

23. Current income tax and deferred income tax

As at 31 December 2012 and 2011, income tax expenses comprised as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Income tax expense components:				
Current income tax	16,666	16,544	12,150	11,772
Deferred income tax (income)	(11,745)	(11,813)	(15,085)	(14,960)
Income tax expense (income) for the reporting period	**4,921**	**4,731**	**(2,935)**	**(3,188)**

The movement in deferred tax assets and liabilities (prior to offsetting the balances with the same fiscal authority) was as follows:

Group	PP&E revaluation (impairment)	Other	Accrued expenses/ income	Impairment of assets	Total
Deferred income tax assets					
At 1 January 2011	**2,187**	**170**	**252**	**11,439**	**14,048**
Recognised in profit or loss	(163)	107	155	(648)	(549)
At 31 December 2011	**2,024**	**277**	**407**	**10,791**	**13,499**
At 1 January 2012	**2,024**	**277**	**407**	**10,791**	**13,499**
Recognised in profit or loss	(162)	(97)	(9)	(626)	(894)
At 31 December 2012	**(2,512)**	**180**	**398**	**10,165**	**12,605**

23. Current income tax and deferred income tax (continued)

Group	PP&E revaluation (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Effect of interest capitalisation	Total
Deferred income tax liabilities					
At 1 January 2011	**(195,934)**	**(718)**	**(10,698)**	**-**	**(207,350)**
Recognised in profit or loss	14,463	184	976	-	15,623
Recognised in other comprehensive income	(63)	-	-	-	(63)
At 31 December 2011	**(181,534)**	**(534)**	**(9,722)**	**-**	**(191,790)**
At 1 January 2012	**(181,472)**	**(465)**	**(9,723)**	**-**	**(191,660)**
Recognised in profit or loss	11,969	161	579	(75)	12,634
Recognised in other comprehensive income	(6)	-	-	-	(6)
	(169,571)	**(373)**	**(9,143)**	**(75)**	**(179,162)**
At 31 December 2012					
Deferred income tax asset, net, at 31 December 2011					**297**
Deferred income tax asset, net, at 31 December 2012					**218**
Deferred income tax liability, net, at 31 December 2011					**(178,588)**
Deferred income tax liability, net, at 31 December 2012					**(166,775)**

Company	PP&E revaluation (impairment)	Accrued expenses	Impairment of assets	Total
Deferred income tax assets				
At 1 January 2011	**2,182**	**183**	**11,409**	**13,774**
Recognised in profit or loss	(167)	118	(653)	(702)
At 31 December 2011	**2,015**	**301**	**10,756**	**13,072**
At 1 January 2012	**2,015**	**301**	**10,756**	**13,072**
Recognised in profit or loss	(162)	(45)	(608)	(815)
At 31 December 2012	**1,853**	**256**	**10,148**	**12,257**

Company	PP&E revaluation (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Effect of interest capitalisation	Total
Deferred income tax liabilities					
At 1 January 2011	**(195,935)**	**(688)**	**(10,699)**	**-**	**(207,322)**
Recognised in profit or loss	14,463	223	976	-	15,662
At 31 December 2011	**(181,472)**	**(465)**	**(9,723)**	-	**(191,660)**
At 1 January 2012	**(181,472)**	**(465)**	**(9,723)**	-	**(191,660)**
Recognised in profit or loss	11,969	155	579	(75)	12,628
At 31 December 2012	**(169,503)**	**(310)**	**(9,144)**	**(75)**	**(179,032)**
Deferred income tax liability, net, at 31 December 2011					**(178,588)**
Deferred income tax liability, net, at 31 December 2012					**(166,775)**

23. Current income tax and deferred income tax (continued)

As at 31 December 2012, deferred income tax liabilities to be settled within 12 months amounted to LTL 11,813 thousand (31 December 2011: LTL 14,960 thousand). All deferred income tax assets will be realised within 12 months.

Income tax expense reported in the statement of comprehensive income can be reconciled to income tax expense that would arise using a statutory income tax rate applicable to profit before income tax.

	Group 2012	Company 2012	Group 2011	Company 2011
Profit (loss) before income tax	**31,035**	**30,176**	**(19,714)**	**(23,512)**
Income tax calculated at a rate of 15 per cent	4,655	4,526	(2,957)	(3,527)
Investment relief	(137)	(128)	(44)	-
Tax effect of income not subject to tax and non-deductible expenses	403	333	66	339
Income tax expense (income) for the reporting period	**4,921**	**4,731**	**(2,935)**	**(3,188)**

24. Trade payables

As at 31 December 2012 and 2011, trade payables of the Group and the Company were as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Amounts payable for contractual works, other services	59,534	56,057	24,199	23,885
Amounts payable for electricity	14,254	14,381	15,797	16,731
Accrued liability for electricity	13,310	13,310	8,835	8,835
Amounts payable for property, plant and equipment and inventories	15,520	183	3,115	33
Amounts payable for electricity transit	-	-	2,975	2,975
Total	**102,618**	**83,931**	**54,921**	**52,459**

The fair value of trade payables approximates their carrying amounts.

25. Advance amounts received

At 31 December 2012 and 31 December 2011, the Group's and the Company's advance amounts received consisted of the following:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Guarantee to secure fulfilment of obligations (Note 14)	1,137	1,077	2,550	-
Other advance amounts received	2,260	1,494	1,790	1,363
Total	**3,397**	**2,571**	**4,340**	**1,363**

According to the Rulebook for Lithuanian Day Ahead Electricity Market, in order to secure the fulfilment of obligations the electricity market participants are required to present to the Company's subsidiary BALTPOOL UAB a bank guarantee on the fulfilment of their obligations not later than 10 (ten) working days before the commencement date of the trading session and/or provide a cash deposit. Cash deposits received from market participants amounted to LTL 2,550 thousand as at 31 December 2011. As of 31 December 2012 all bank guarantees on the fulfilment of obligations and/or cash deposits were returned to the electricity market participants.

26. Other accounts payable

As at 31 December 2012 and 2011, other accounts payable of the Group and the Company were as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Payable administered PSO fees	63,796	63,796	59,477	59,477
Difference between PSO service fees received and disbursed	73,413	73,413	64,677	64,677
Payables to power exchange participants	-	-	10,582	-
*Advance amounts received from new users	13,893	13,893	7,345	7,345
VAT payable to the state budget	6,713	5,348	3,622	2,773
Employment-related liabilities	1,921	444	867	378
Dividends payable	1,462	1,462		
Accrued charges relating to vacation reserve	2,215	1,142	1,593	965
Other accrued charges	2,027	1,803	2,335	1,820
Real estate tax payable	668	667	1,193	1,192
Other payables and current liabilities	1,154	8	2,016	1,425
Total	**167,262**	**161,976**	**153,707**	**140,052**

The fair value of current other accounts payable (financial liabilities) approximates their carrying amounts.

*Advance amounts received from new users represent prepayments received from new users for their connection to the electricity network. These advance amounts will be recognised as income upon the provision of connection services.

27. Sales of electricity and related services

	Group 2012	Company 2012	Group 2011	Company 2011
Electricity transmission service	219,535	219,535	204,689	204,689
Trade in balancing/regulating electricity	108,828	108,828	86,782	86,782
Capacity reserve service	64,597	64,597	55,481	55,481
Other sales of electricity and related services	21,200	21,042	21,315	21,174
Services under PSO scheme	15,081	15,081	10,229	10,229
Income from connection of new users	1,031	1,031	4,697	4,697
Income from derivative financial instruments	255	-	-	-
Total	**430,527**	**430,114**	**383,193**	**383,052**

28. Segment information

Management distinguished business segments based on the reports reviewed by the Board who is considered to be the chief operating decision-maker of the Group. The Board analyses operations by geographical areas and types of services provided. Operating profit (loss) is a profitability indicator analysed by management. Reports reviewed by the Board are consistent with the financial statements prepared in accordance with IFRS, except for different presentation.

The Group has distinguished the following 6 segments:

- electricity transmission;
- trade in balancing/regulating electricity;
- provision of capacity reserve services;
- provision of services under PSO (public service obligation) scheme;
- activities of the market operator;
- repair and maintenance activities.

The electricity transmission segment is engaged in transmitting electricity over high voltage (330-110 kV) equipment from producers to end users or suppliers not in excess of the limit established in the contract. The main objective of these activities is to ensure a reliable, effective, high quality, transparent and safe electricity transmission to distributions networks, large network users from power stations and neighbouring energy systems.

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

28. Segment information (continued)

Provision of capacity reserve services: to ensure a reliable work of the system, the Company purchases from electricity producers the service of ensuring capacity reserve for power generation facilities and provides capacity reserve services to end users. The capacity reserve is required in case of unexpected fall in electricity generation volumes or increase in electricity consumption.

The Company's/Group's services provided under PSO scheme comprise as follows:

- development and implementation of strategic projects for the improvement of energy security with the help of interconnections Lithuania-Sweden and Lithuania-Poland, connection of the Lithuanian electric energy system to ENTSO-E continental Europe networks;
- connection of power generation facilities, which use wind, biomass, solar energy or hydroenergy in the process of electricity generation, to transmission networks, optimisation, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electricity from producers that use the renewable energy resources;
- balancing of electricity generated using the renewable energy resources;
- administration of PSO service fees.

The Company's subsidiary BALTPOOL UAB carries out the activities of natural gas market operator and applies measures to secure against the fluctuations in electricity prices on power exchange. BALTPOOL UAB earns revenue mainly from turnover fees for trade in power exchange. Until 18 June 2012, BALTPOOL UAB used to act as power exchange operator.

Repair and maintenance services are carried out by the Company's subsidiary TETAS UAB. Its core line of business is reconstruction, repair and maintenance of medium voltage transformer substations and distribution stations.

The Group's information on segments for the year ended 31 December 2012 is presented in the table below:

2012	**Operating segments**							
	Electricity trans-mission	**Trade in balancing/ regulating electricity**	**Provision of capacity reserve services**	**Provision of services under PSO scheme**	**Activities of market operator**	**Repair and mainte-nance activities**	**Other inter-segment elimina-tions**	**Total**
Revenue	249,675	108,828	64,597	15,081	2,078	80,165	-	520,424
Inter-segment revenue	-	-	-	-	(1,565)	(9,967)	(525)	(12,057)
Revenue after elimination of intercompany revenue within the Group	**249,675**	**108,828**	**64,597**	**15,081**	**513**	**70,198**	**(525)**	**508,367**
Operating profit (loss)	**(3,157)**	**23,509**	**8,091**	**-**	**192**	**211**	**(519)**	**28,327**
Finance income (costs), net	**1,727**	**-**	**-**	**-**	**104**	**9**	**-**	**1,840**
Share of result of associates and jointly controlled entities	636	-	-	-	-	-	-	636
Gain on change in ownership interest in associate	232	-	-	-	-	-	-	232
Profit (loss) before income tax	**(562)**	**23,509**	**8,091**	**-**	**296**	**220**	**(519)**	**31,035**
***Income tax**	**(4,731)**	**-**	**-**	**-**	**(36)**	**(154)**	**-**	**(4,921)**
Net profit (loss) for the year	**(5,293)**	**23,509**	**8,091**	**-**	**260**	**66**	**(519)**	**26,114**
Depreciation and amortisation expense	124,960	-	-	-	93	1,236	(6)	126,283
Write-offs of property, plant and equipment	1,409	-	-	-	-	-	-	1,409

28. Segment information (continued)

The Group's information on segments for the year ended 31 December 2011 is presented in the table below:

2011	Operating segments							
	Electricity trans-mission	Trade in balancing/ regulating electricity	Provision of capacity reserve services	Provision of services under PSO scheme	Activities of market operator	Repair and mainte-nance activities	Other inter-segment eliminations	Total
Revenue	236,452	86,782	55,481	10,229	2,551	55,635	-	447,130
Inter-segment revenue	(2,785)	-	-	-	-	(9,539)	-	(12,324)
Revenue after elimination of intercompany revenue within the Group	**233,667**	**86,782**	**55,481**	**10,229**	**2,551**	**46,096**	**-**	**434,806**
Operating profit (loss)	**(36,943)**	**19,737**	**(8,671)**	**-**	**433**	**1,064**	**(9)**	**(24,389)**
Finance income (costs), net	**2,366**	**-**	**-**	**-**	**190**	**1**	**-**	**2,557**
Share of result of associates and jointly controlled entities	419	-	-	-	-	-	-	419
Gain on change in ownership interest in associate	**1,699**	**-**	**-**	**-**	**-**	**-**	**-**	**1,699**
Profit (loss) before income tax	**(32,459)**	**19,737**	**(8,671)**	**-**	**623**	**1,065**	**(9)**	**(19,714)**
***Income tax**	**3,188**	**-**	**-**	**-**	**(50)**	**(203)**	**-**	**2,935**
Net profit (loss) for the year	**(29,271)**	**19,737**	**(8,671)**	**-**	**573**	**862**	**(9)**	**(16,779)**
Depreciation and amortisation expense	132,488	-	-	-	1	1,123	-	133,612
Write-offs of property, plant and equipment	12,929	-	-	-	-	-	-	12,929

The Group operates in Lithuania and its revenue generated from customers in Lithuania accounts for 99% of total revenue.

The Company sells regulating electricity to transmission system operators in Latvia and Estonia and provides the electricity transit service to the Russian transmission system operator.

In 2012 and 2011, the Group's and the Company's revenue by geographical location of customers:

Country	Group 2012	Company 2012	Group 2011	Company 2011
Lithuania	503,893	433,828	431,249	385,387
Russia	2,010	2,010	1,859	1,859
Estonia	1,564	1,564	793	793
Latvia	882	882	905	905
Bulgaria	18	18	-	-
Total	**508,367**	**438,302**	**434,806**	**388,944**

All assets of the Group and the Company are located in Lithuania.

In 2012, the Group's revenue from its major external customer (Visagino Atominė Elektrinė UAB group companies) amounted to LTL 359,019 thousand (2011: LTL 302,340 thousand).

29. Other revenue

	Group 2012	Company 2012	Group 2011	Company 2011
Repairs and other services	66,566	-	45,159	-
Lease of assets	6,060	6,081	5,142	5,500
Engineering works	3,332	-	911	-
Other income	1,882	2,107	401	392
Total	**77,840**	**8,188**	**51,613**	**5,892**

30. Finance income

	Group 2012	Company 2012	Group 2011	Company 2011
Interest income	1,566	1,475	2,564	2,372
Other income	152	104	10	3
Dividends received	238	238	-	-
Total	**1,956**	**1,817**	**2,574**	**2,375**

Interest expense eligible for capitalisation in the Company amounted to LTL 1,340 thousand as at 31 December 2012. The latter amount was reduced by interest income amount which totalled LTL 846 thousand during a respective period. The total amount of interest capitalised was LTL 494 thousand.

31. Related-party transactions

The Company's/Group's related parties in 2012 and 2011 were as follows:

- EPSO-G (the parent of the Company) (with effect from 28 September 2012). EPSO-G is a wholly-owned by the Ministry of Energy of the Republic of Lithuania;
- Visagino Atominė Elektrinė UAB and its subsidiaries (until 28 September 2012). Visagino Atominė Elektrinė UAB is wholly-owned by the Ministry of Economy of Lithuania;
- Government-related entities;
- Subsidiaries of the Company;
- Associates and jointly controlled entities of the Company;
- Management of the Company.

Visagino Atominė Elektrinė UAB was the parent of the Company/Group until 28 September 2012, therefore related-party transactions disclose transactions with VAE group companies.

During 2012 and 2011, the major related-party transactions within the Group were conducted between the Company and LESTO AB and Lietuvos Energija AB (Visagino Atominė Elektrinė UAB group companies). The Group's purchases from these companies mainly comprised purchases of electricity and disbursement of PSO service fees. Sales transactions mainly comprised sales of electricity, capacity reserve service, electricity transmission services and collection of PSO service fees.

The Group's balances arising on transactions with related parties as at 31 December 2012 were as follows:

Related parties	**Trade and other accounts payable and advances received**	**Trade and other receivables**
Visagino Atominė Elektrinė UAB group companies	47,237	122,225
Associates of the Group	3,718	625
The Group's parent company (EPSO-G UAB)	-	-
Total	**50,955**	**122,850**

31. Related-party transactions (continued)

The Group's sales to related parties in 2012 were as follows:

Related parties	Transmission trading in the power exchange	Trading in balancing/ regulating electricity	Electricity transmission services	Capacity reserve services	PSO fees received	Other income	Total
Associates	-	-	-	-	-	6,388	6,388
Visagino Atominė Elektrinė UAB group companies	304,604	49,033	196,205	56,515	623,532	50,613	1,280,502
Total	**304,604***	**49,033**	**196,205**	**56,515**	**623,532***	**57,001**	**1,286,890**

*Whereof: LTL 623,532 thousand PSO service fees received from related parties and LTL 304,339 thousand sales of electricity on the power exchange to related parties. The Group does not recognise revenue and expenses from electricity trading in power exchange and administration of PSO service fees with respect to those transaction in which it acts as an agent on behalf of the Commission/Government.

The Group's purchases from related parties in 2012 were as follows:

Related parties	Repair and maintenance of electricity network and substations	Transmission trading expenses in the power exchange	Balancing electricity expenses	Purchases of capacity reserve services	PSO service fees paid	Purchases of PP&E	Other expenses	Total
Associates	8,014	-	-	-	-	2,369	13,208	23,591
Visagino Atominė Elektrinė UAB group companies	989	131,742	46,234	56,506	432,243*	14,493	10,101	692,308
Total	**9,003**	**131,742**	**46,234**	**56,506**	**432,243***	**16,862**	**23,309**	**715,899**

*Whereof: LTL 432,243 thousand PSO service fees paid to related parties and LTL 131,620 thousand purchases of electricity on the power exchange from related parties. The Group acts as an agent in these transactions. The Group does not recognise revenue and expenses from electricity trading in power exchange and administration of PSO service fees with respect to those transaction in which it acts as an agent on behalf of the Commission/Government.

The Company's balances arising on transactions with related parties as at 31 December 2012 were as follows:

Related parties	**Trade and other accounts payable and advances received**	**Trade and other receivables**
Visagino Atominė Elektrinė UAB group companies	46,833	107,634
Subsidiaries of the Company	6,548	13
Associates of the Company	2,439	622
EPSO-G UAB	-	-
Total	**55,820**	**108,269**

The Company's sales to related parties in 2012 were as follows:

Related parties	Transmission trading in the power exchange	Trading in balancing/ regulating electricity	Electricity transmission services	Capacity reserve services	PSO fees received	Other income	Total
Associates	-	-	-	-	-	6,378	6,378
Subsidiaries	-	-	-	-	-	243	243
Visagino Atominė Elektrinė UAB group companies	45,019	49,033	196,205	56,515	623,532	4,504	974,808
Total	**45,019***	**49,033**	**196,205**	**56,515**	**623,532***	**11,125**	**981,429**

*Whereof: LTL 623,532 thousand PSO service fees received from related parties and LTL 44,942 thousand sales of electricity on the power exchange to related parties. In performing PSO-related activities the Company acts only as an agent on behalf of the Commission/Government.

31. Related-party transactions (continued)

The Company's purchases from related parties in 2012 were as follows:

Related parties	Repair and mainte-nance of electricity network and substa-tions	Transmi-ssion trading expenses	Balancing electricity expenses	Electri-city transmi-ssion expenses	Purcha-ses of capacity reserve services	PSO service fees paid	Purchase s of PP&E	Other expenses	Total
Associates	8,014	-	-	-	-	-	2,369	12,261	22,644
Subsidiaries	9,754	12,572	-	1,543	-	-	21,878	-80	45,667
Visagino Atominė Elektrinė UAB group companies	989	44,942	46,234	-	56,506	432,243	14,493	4,315	599,723
Total	**18,757**	**57,514***	**46,234**	**1,543**	**56,506**	**432,243***	**38,740**	**16,496**	**668,034**

*Whereof: LTL 432,243 thousand PSO service fees paid to related parties and LTL 44,942 thousand purchases of electricity on the power exchange from related parties. The Company acts as an agent in these transactions.

The Group's balances arising on transactions with related parties as at 31 December 2011 were as follows:

Related parties	Trade and other accounts payable and advances received	Trade and other receivables
Visagino Atominė Elektrinė UAB group companies	58,274	99,314
Associates of the Group	2,626	1,211
The Group's parent company (EPSO-G UAB)	-	-
Total	**60,900**	**100,525**

The Group's sales to related parties in 2011 were as follows:

Related parties	Transmission trading in the power exchange	Trading in balancing/ regulating electricity	Electricity transmission services	Capacity reserve services	PSO fees received	Other income	Total
Associates	-	-	-	-	-	4,773	4,773
Visagino Atominė Elektrinė UAB group companies	493,060*	40,935	177,239	48,159	516,371*	35,935	1,311,699
Total	**493,060***	**40,935**	**177,239**	**48,159**	**516,371***	**40,708**	**1,316,472**

*Whereof: LTL 516,371 thousand PSO service fees received from related parties and LTL 492,988 thousand sales of electricity by BALTPOOL UAB to related parties. The Group acts as an agent in these transactions. The Group does not recognise revenue and expenses from electricity trading in power exchange and administration of PSO service fees with respect to those transaction in which it acts as an agent on behalf of the Commission/Government.

The Group's purchases from related parties in 2011 were as follows:

Related parties	Repair and maintenance of electricity network and substations	Transmi-ssion trading expenses	Balancing electricity expenses	Purchases of capacity reserve services	PSO service fees paid	Purchases of PP&E	Other expen-ses	Total
Associates	11,479	-	-	-	-	1,918	12,366	25,763
Visagino Atominė Elektrinė UAB group companies	555	217,695*	35,403	63,123	326,115*	22,610	9,979	675,480
Total	**12,034**	**217,695***	**35,403**	**63,123**	**326,115***	**24,528**	**22,345**	**701,243**

*Whereof: LTL 326,115 thousand PSO service fees paid to related parties and LTL 217,695 thousand purchases of electricity on the power exchange by BALTPOOL UAB from related parties. The Group acts as an agent in these transactions. The Group does not recognise revenue and expenses from electricity trading in power exchange and administration of PSO service fees with respect to those transaction in which it acts as an agent on behalf of the Commission/Government.

31. Related-party transactions (continued)

The Company's balances arising on transactions with related parties as at 31 December 2011 were as follows:

Related parties	Trade and other accounts payable and advances received	Trade and other receivables
Associates of the Company	4,706	2,573
Subsidiaries of the Company	2,576	804
The Group's parent company (EPSO-G elektrinė UAB)	-	-
Visagino Atominė Elektrinė UAB group companies	56,711	87,451
Total	**63,993**	**90,828**

The Company's sales to related parties in 2011 were as follows:

Related parties	Trading in balancing/ regulating electricity	Electricity transmission services	Capacity reserve services	PSO fees received	Other income	Total
Associates	-	-	-	-	4,387	4,387
Subsidiaries	-	-	-	-	385	385
Visagino Atominė Elektrinė UAB group companies	40,935	177,239	48,159	516,371*	5,266	787,970
Total	**40,935**	**177,239**	**48,159**	**516,371***	**10,038**	**792,742**

*Whereof: LTL 516,371 thousand PSO service fees received from related parties. In performing PSO-related activities the Company acts only as an agent on behalf of the Commission/Government.

The Company's purchases from related parties in 2011 were as follows:

Related parties	Repair and mainte-nance of electricity network and substations	Transmission trading expenses	Balancing electricity expenses	Electri-city transmi-ssion expenses	Purchases of capacity reserve services	PSO service fees paid	Purchases of PP&E	Other expenses	Total
Associates of the Company	11,479	-	-	-	-	-	1,918	11,812	25,209
Subsidiaries of the Company	9,530	25,019	-	2,400	-	-	4,309	-	41,258
Other Visagino Atominė Elektrinė UAB group companies	555	-	35,403	-	63,123	326,115*	22,610	4,254	452,060
Total	**21,564**	**25,019**	**35,403**	**2,400**	**63,123**	**326,115***	**28,837**	**16,066**	**518,527**

*Whereof: LTL 326,115 thousand PSO service fees paid to related parties. In performing PSO-related activities the Company acts only as an agent on behalf of the Commission/Government.

Lease of assets

According to the agreement between the Company and NT Valdos UAB (Visagino atomine elektrine UAB Group entity), the Company rents administrative premises in Vilnius. Monthly average rent fee according to the agreement is LTL 124 thousand. Rent agreement is valid till November 2014.

According to the agreement between the Company and NT Valdos UAB, the Company rents vehicles. Monthly average rent fee according to the agreement is LTL 29 thousand and monthly average maintenance fee is LTL 41 thousand. Rent agreement is valid until 12 July 2015.

Contributions to the share capital of subsidiary and associate
Contributions by related parties to the share capital of subsidiary and associate are disclosed in Note 6.

31. Related-party transactions (continued)

Payments to key management personnel

	Group 2012	Company 2012	Group 2011	Company 2011
Employment-related payments	2,710	1,647	2,647	1,616
whereof: termination benefits	246	177	293	254
Number of key management personnel	16	8	15	8

Key management consists of heads of administration and their deputies (directors of departments), and the chief financier.

32. Basic and diluted earnings per share

In 2012 and 2011, basic and diluted earnings per share were as follows:

	2012	2011
Net profit (loss) attributable to the Company's shareholders (thousand LTL)	26,005	(17,182)
Weighted average number of shares (thousand units)	504,331	504,331
Basic and diluted earnings per share (in LTL)	**0.05**	**(0.03)**

33. Financial risk factors

The Group companies are exposed to financial risks in their operations. In managing these risks the Group companies seek to mitigate the impact of factors which could adversely affect the Group's and the Company's financial performance results. Financial risk management is conducted by the Company's Finance Planning and Analysis Department in accordance with the description of LITGRID group treasury management procedure approved by LITGRID Board.

Financial instruments by category (as reported in the statement of financial position)

Financial assets	Group as at 31 December 2012	Company as at 31 December 2012	Group as at 31 December 2011	Company as at 31 December 2011
Trade receivables	72,156	51,646	45,310	37,782
Other receivables	97,034	95,844	88,892	79,181
Other financial assets	63,490	62,312	61,096	61,096
Time deposits	-	-	115,079	115,079
Cash and cash equivalents	127,387	126,097	65,185	57,131
Loans and receivables	360,067	335,899	375,562	350,269
Other financial assets	-	-		
Held-to-maturity investments	-	-	21,539	21,539
Available-for-sale financial assets	7,722	7,722	1,084	1,084
Total	**367,789**	**343,621**	**398,185**	**372,892**

Financial liabilities	Group as at 31 December 2012	Company as at 31 December 2012	Group as at 31 December 2011	Company as at 31 December 2011
Borrowing	184,068	179,546		
Trade payables	102,618	83,931	54,921	52,459
Other accounts payable and liabilities	141,852	140,482	139,087	127,399
Financial liabilities carried at amortised cost	**245,531**	**225,547**	**194,008**	**179,858**

33. Financial risk factors (continued)

Credit risk

As at 31 December 2012 and 2011, exposure to credit risk was related to the following items:

	Group as at 31 December 2012	Company as at 31 December 2012	Group as at 31 December 2011	Company as at 31 December 2011
Financial assets	360,067	335,899	397,101	371,808

The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The Group and the Company have a significant credit risk concentration, because exposure to credit risk is shared among 10 main customers, which accounted for approximately 97 and 84 per cent of the Group's and the Company's total trade and other accounts receivable (financial assets), respectively, as at 31 December 2012. Amounts payable by the major customer, distribution network operator LESTO AB, accounted for 60 and 69 per cent of the Group's and the Company's total receivables (financial assets), respectively.

When entering into contracts with customers (suppliers of balancing electricity) LITGRID requires to pay a cash deposit of the established amount or to provide a bank guarantee in accordance with the procedure and conditions stipulated in the Description of the Procedure for Ensuring Fulfilment of Obligations of Balancing Electricity Suppliers of LITGRID AB approved by the Company's general director. In other cases, since the main customers are trustworthy customers (LESTO AB, which is Visagino Atominė Elektrinė UAB group company, and large corporate customers), the Group/Company does not require any collateral from its customers.

Since April 2011 Achema AB does not pay to LITGRID (administrator of PSO service fees) PSO service fees collected for electricity generated and consumed for internal needs. On 22 July 2011, LITGRID AB filed a legal claim to Kaunas County Court by which it claimed from Achema AB to cover LTL 2,292 thousand debt and interest for April-June 2011. The investigation of this case was suspended by the decision of 14 June 2012 of Kaunas County Court until the completion of investigation of the case with Vilnius County Court initiated by the claim of Achema AB against LITGRID requesting the recognition of the transaction as null and void and payment of restitutional compensation. Vilnius County Court suspended the investigation of the latter case by the decision of 27 February 2013 until the final resolution of the administrative case at the Supreme Administrative Court of Lithuania (SACL) initiated by the claim (request) of the group of the Lithuanian Parliament (Seimas) members regarding non-compliance of post-legislative acts with the Lithuanian Law on Electric Energy. Thus, the outcome of the dispute with Achema AB depends on the outcome of the case investigated by SACL On 30 January 2012, SACL adopted the decision to suspend the case until the Constitutional Court of the Republic of Lithuania completes its investigation of the request submitted by the members of the Lithuanian Parliament to investigate whether the provisions of the Lithuanian Law on Electric Energy are not in breach of the Constitution of the Republic of Lithuania. The outcome of the case may affect the balance of PSO service fees administered by the Company, however, it will have no impact on the Company's net profit (loss) because the Company acts as an agent and PSO service fees administered by it are recognised only as amounts receivable(payable). As at 31 December 2012, the outstanding debt of Achema AB amounted to LTL 7,445 thousand (31 December 2011: LTL 5,121 thousand).

The Group/Company invests its liquid funds only in low risk money market and debt instruments, i. e. time deposits bonds of trustworthy financial institutions, government securities. When making investments the priority objective is to ensure the security of funds and in pursue of this objective to maximise return on investments. Investments are made only in debt financial instruments of financial institutions or governments with not lower than AA- rating according to Fitch Rating agency (or equivalent rating of other rating agencies). In the table below are provided ratings of the banks where the Group/Company holds its cash and cash equivalents (Note 14), time deposits (Note 11) and other financial assets (Note 12):

Nordea	AA-
Danske bank	A
Swedbank	A+
SEB	A+
Unicredit	A

Trade and other receivable are mainly from the state controlled entities and large manufacturers with no history of defaults.

For ageing analysis of the Group's/Company's trade and other receivables see Note 9 and Note 10. The management does not expect any losses from financial assets that are neither past due nor impaired.

33. Financial risk factors (continued)

Liquidity risk

The Group's policy is to ensure funding of its operations so that the Group will have sufficient cash and/or committed credit facilities and overdrafts to meet its contractual obligations at any time. The liquidity risk is managed by making forecasts of cash flows of the Group companies.

The Group's cash flows from operating activities were positive in 2012, therefore its exposure to liquidity risk is insignificant. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as at 31 December 2012 were 1.14 and 1.09, respectively (31 December 2011: 1.82 and 1.81, respectively). The Company's liquidity and quick ratios as at 31 December 2012 were 1.13 and 1.12, respectively (31 December 2011: 1.88 and 1.86, respectively).

The table below summarises the maturity profile of the Group's and the Company's non-derivative financial liabilities based on contractual undiscounted payments. This table has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Balances with repayment terms up to 12 months are equal to their carrying amounts, because the impact of discounting is insignificant.

Group	Up to 3 months	From the fourth month up to one year	Within the second year	Within the third to the fifth year
At 31 December 2012				
Trade and other accounts payable	65,985	41,434	41,434	96,678
At 31 December 2011				
Trade and other accounts payable	194,008	-	-	-

Company	Up to 3 months	From the fourth month up to one year	Within the second year	Within the third to the fifth year
At 31 December 2012				
Trade and other accounts payable	46,001	41,434	41,434	96,678
At 31 December 2011				
Trade and other accounts payable	179,858	-	-	-

Market risk

a) Interest rate risk

The Group's and the Company's income, expenses and cash flows from operating activities are substantially independent of changes in market interest rates. The Group has non-current and current borrowings and the overdraft subject to interest rate which is linked with VILIBOR and EURIBOR. If interest rate would be shifted +/- 0.1%, the impact of interest rate of the Group's borrowings on profit before tax would be LTL 48 thousand as at 31 December 2012.

b) Foreign exchange risk

In order to manage the foreign exchange risk, the Group and the Company enter into purchase/sale contracts only in the euros or the litas. With effect from 2 February 2002, the litas has been pegged to the euro at the fixed exchange rate, therefore, foreign exchange risk substantially does not exist.

34. Fair value of financial assets and financial liabilities

The Group's and the Company's principal financial assets and liabilities not carried at fair value are trade receivables and other accounts receivable, time deposits, cash and cash equivalents, borrowings, trade payables and other accounts payable and held to maturity investments.

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

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

- The carrying amount of current trade and other accounts receivable, held-to-maturity financial assets, time deposits, cash and cash equivalents, borrowings, current trade and other accounts payable approximates their fair value.
- The fair value of available-for-sale financial assets is determined based on the estimation of the value of the investee using the fair value, less costs to sell, method. The fair value determined is classified in the category of valuation models which are not based on observable market data.

35. Contingent liabilities

Litigations
The administrative case was initiated on the basis of Achema AB (the claimant) claim for damages caused by illegitimate actions of state authorities. Achema AB claims that the state authorities acted illegitimately and beyond their competence when they adopted the Lithuanian Law on Electric Energy, the provisions of which are in breach of the Constitution of the Republic of Lithuania and EU legal acts, and post-legislative acts (Order No. 1-214 of the Minister of Energy of 24 November 2009 *On determination of the list of PSO services in electricity energy sector*, Order No. 1-215 of the Minister of Energy of 24 November 2009 *On approval of description of procedure for provision of PSO services*, Order No. O3-328 of the National Control Commission for Prices and Energy of 17 December 2010 *On approval of description of the procedure for administration of PSO service fees*, and Order No. O3-82 of the National Control Commission for Prices and Energy of 19 October 2007 *On the methodology for calculation of tariffs of PSO services*) that are in breach of legal acts bearing superior power. Achema AB claims that damages incurred by it as a result of allegedly illegitimate actions of state authorities amounted to LTL 3,127 thousand. Given the fact that the Supreme Administrative Court of Lithuania is currently engaged in the investigation of legitimacy of regulatory administrative acts, Vilnius County Administrative Court on 7 December 2011 decided to suspend the investigation of this case until the Supreme Administrative Court completes the investigation of the aforementioned case. On 30 January 2012, SACL adopted the decision to suspend the case until the Constitutional Court of the Republic of Lithuania completes its investigation of the request submitted by the members of the Lithuanian Parliament to investigate whether the provisions of the Lithuanian Law on Electric Energy are not in breach of the Constitution of the Republic of Lithuania. The management does not believe that these litigations will have any negative impact on the Group's/Company's financial statements. See Note 33 for more details.

36. Commitments

Property, plant and equipment purchase commitments are disclosed in Note 5.

37. Post-balance-sheet events

In the implementation of the electricity sector reorganisation plan and following the decision of 17 October 2012 of the Board of LITGRID, LITGRID and LESTO AB signed the share exchange agreement on 7 January 2013. Under the latter agreement LITGRID disposed to the company LESTO AB shares of Elektros Tinklo Paslaugos UAB held by the right of ownership which represent 25.03% of the authorised share capital of Elektros Tinklo Paslaugos UAB in exchange for shares of Tetas UAB being disposed by LESTO AB which represent 38.87% of the authorised share capital of Tetas UAB. Upon acquisition of shares LITGRID became the sole shareholder of Tetas UAB.

Under Resolution No. 1338 of 7 November 2012 of the Lithuanian Government BALTPOOL UAB was assigned with the responsibility to carry out the function of the administrator of PSO services in the electricity sector. Following the provisions of the mentioned resolution, LITGRID AB ceases its activities as an PSO services administrator with effect from 1 January 2013.

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LitGRID

LITGRID AB AND ITS SUBSIDIARIES
CONSOLIDATED ANNUAL REPORT FOR 2012

I. General Information about the Group of Companies

This Consolidate Annual Report has been prepared for the financial year 2012.

Issuer and its contact details:

Name	LITGRID AB (hereinafter referred to as "Litgrid" or "the Company")
Legal form	Public limited liability company
Date and place of registration	2010-11-16, Register of Legal Persons of the Republic of Lithuania
Business ID	302564383
Registered office address	A. Juozapavičiaus g. 13, LT-09311, Vilnius
Telephone No	+370 5 278 2777
Fax No	+370 5 272 3986
Email	info@litgrid.eu; www.litgrid.eu

Activities of Litgrid

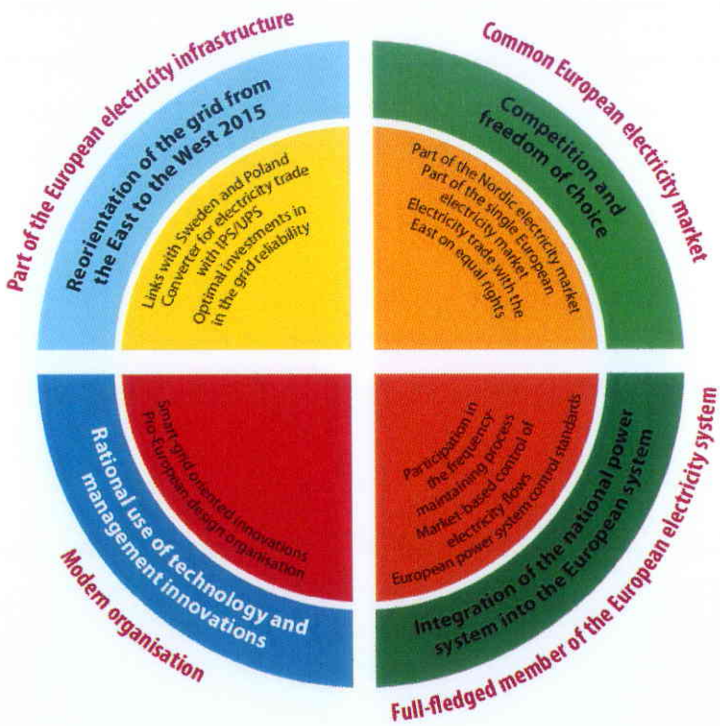
Litgrid, the Lithuanian electricity transmission system operator that maintains stable operation of the country's electric power system, controls power flows, and facilitates conditions for the electricity market functioning. Litgrid is also in charge of the integration of the Lithuanian electric power system into the European electricity infrastructure and a common European electricity market. While implementing strategic projects of international power links NordBalt (Lithuania-Sweden) and LitPol Link (Lithuania-Poland), in order to secure the country's energy independence, we foster a culture of responsibility, resourcefulness and dialogue.

Mission of Litgrid: ensure reliable transmission of electricity and enable competition in the open electricity market.

Vision of Litgrid: full integration of the Lithuanian electricity system into the European electricity infrastructure and the common electricity market.

Values of Litgrid: responsibility, highest professional standards, cooperation, proactiveness, respect.

Litgrid strategy: responsibility to control national electricity system



Lithuania is an independent state for more than twenty years and a member of the European Union for nearly a decade. Its electricity system, however, remains part of a non-European electricity system centrally controlled from a neighbouring Eastern state. The Baltic States (Lithuania, Latvia and Estonia) are still isolated from the continental European electricity transmission grids. Litgrid, which is the backbone of the Lithuanian electricity sector, is responsible for ensuring reliable operation of the national electricity system and its integration into the European grids and systems, in addition to such responsibilities as maintaining the electricity consumption and generation balance and securing a reliable electricity transmission. The main lines of activities of Litgrid in the process of implementation of the National Energy Strategy are as follows:

Integration of the national power system into Europe

After Lithuania becomes a full-fledged member of the European electricity system, the European management standards will be implemented in the Lithuanian electricity sector, control of electricity flows based on the market principles will be introduced, and participation in the system frequency maintenance will be ensured. The aim is to achieve synchronous operation of the Baltic States in the continental European network.

Common European electricity market

Integration of the Lithuanian electricity market into the Baltic and Nordic markets, and later into the common European electricity market , will secure transparent prices for electricity, competition and freedom of choice to all market players as well as electricity trade with the neighbouring European states on equal rights. Being part of a large electricity market will lead to a most effective use of the network and generation infrastructure and to ensuring security of the electricity supply.

Integration of the electricity transmission network into the European electricity infrastructure

Lithuania has a strong electricity transmission network; now it is well connected with the electricity transmission infrastructure of the neighbours in the East and, upon completion of construction of the links with Sweden (NordBalt) and Poland (LitPol Link), connections with the North and West European networks will be ensured. While development of the interconnection links will enable electricity trade between different energy systems, optimal investments in the national grid will ensure the integration of new power generators, secure transmission of electricity, and reliable operation of the national system. Lithuania will become, jointly with Latvia and Estonia, a well-developed region with reliable links.

Modern organisation effectively using innovative technologies and advanced management methods

Litgrid is a pro-European design enterprise the activities of which are based on modern management approaches and responsible work. While implementing major energy projects of strategic significance for the national economy, the company develops the following key competences: system control and reliable transmission of electricity, maintaining of the national power balance, infrastructure support, and project management. Litgrid's people – highly competent specialists and managers – plan the development of the transmission network, the electricity market and the energy system focussing on innovations that support the smart grid development, formulate technical policies of the transmission network, collaborate with Lithuanian higher educational establishments, and take part in the activities of international organisations engaged in the planning of electricity infrastructure, markets and systems.

In implementing the strategic projects aimed at the country's energy independence and working in a stringent regulatory environment, Litgrid is putting forth efforts to rationally and efficiently use the available financial resources and the European Union's assistance. In this way the company contributes to the strengthening of the country's competitiveness and the promoting of the public welfare.

Most important and other events in the implementation of the strategic energy sector projects in 2012

Implementation of the intersystem electricity interconnection „LtiPol Link"

In February 2012, Litgrid finished paying compensations under easements establishment agreements to nearly 400 out of 500 land owners whose property falls within the route of construction of LitPol Link. For the remaining land owners easements were established by the National Land Service by administrative deeds.

On 21 February 2012, a contract for the designing of the reconstruction of a 330 kV Alytus transformer substation and for the project supervision was concluded.

On 16 March 2012, a contract for the designing a 400 kV overhead line from the Alytus transformer substation to the Lithuanian-Polish border was concluded.

In 2012, a public procurement for the design and construction of a HVDC back-to-back converter station with a 400 kV switchyard at Alytus transformer substation was conducted, with the main procurement procedures completed by the end of the year. The contract with the winner in the international tendering procedure was concluded on 15 February 2013.

Implementation of the intersystem electricity interconnection „NordBalt"

Throughout 2012, manufacture of a sub-sea cable for the NordBalt link was continued in Sweden; about 100 km of cable was produced. It is estimated that 900 km of the cable will be manufactured and the cable will be laid on the seabed in 2014 and 2015.

In April 2012 the Minister of Energy of the Republic of Lithuania approved the special plan on the NordBalt link construction in the Klaipėda County.

In May 2012, Litgrid finished paying compensations under easements establishment agreements to the land owners whose property falls within the route of construction of the NordBalt Link. For those land owners who have not concluded such agreements, servitudes were established by the National Land Service by administrative deeds.

In October 2012, technical design for the Klaipėda converter substation of the NordBalt Link was completed. A building permit for the converter substation was obtained in January 2013.

In November - December 2012, additional investigations of the Baltic Sea bed were carried out at the points of the planned intersections of the NordBalt link with the present infrastructure (cables and gas pipelines).

In December 2012, technical design for a cable in the Lithuanian territory of the NordBalt link was completed and an application for a building permit was filed.

In 2012, reconstruction of the Klaipėda transformer substation and a 330 kV line Klaipėda - Telšiai in Telšiai and Plungė districts was carried out.

Development of Lithuanian electricity market

On 26 March 2012, Litgrid and Nord Pool Spot, which operates a leading power market in Europe, concluded an agreement on the launching of the Nord Pool Spot's activities in Lithuania.

On 18 June 2012, the Lithuanian bidding area of the Nordic electricity market operated by Nord Pool Spot was launched. The entry of Nord Pool Spot into the Lithuanian market means the accomplishment one of the strategic energy objectives, i.e. gradual joining the common European electricity market. The opening of the Nord Pool Spot's bidding area in Lithuania forms part of the Baltic Energy Market Interconnection Plan (BEMIP) initiated by the European Commission. The common electricity market ensures transparent wholesale electricity price and trade, the opportunities for buying cheaper electricity generated in other countries, and equal trading conditions for all market players.

On 1 August 2012, Litgrid purchased 2% of shares of Nord Pool Spot and acquired the right to participate in the board of the electricity exchange.

Integration of Lithuanian electricity system into the European Continental network

On 26 April 2012, the Government of Lithuania adopted a resolution whereby Litgrid was authorised to take actions toward the synchronisation of the Lithuanian power system with the European Continental Network. Synchronisation is a strategic objective of the Lithuanian electricity sector.

On 29 April 2012, transmission system operators of the Baltic States: Litgrid (Lithuania), Augstsprieguma Tikls (Latvia), and Elering (Estonia) concluded an agreement with a Swedish company Gothia Power AB on the preparation of a feasibility study for the connection of the Baltic States' energy systems with the European Continental Network. In the study, which will be completed by the end of 2013, will be analysed the technical conditions and opportunities for such connection.

On 12 June 2012, the Seimas (Parliament) of the Republic of Lithuania adopted the Law on the Integration of the Electricity System into the European Continental Network. Integration of the Lithuanian electricity system into European systems includes the strategic energy projects implemented by Litgrid, i.e. LitPol Link with Poland and NordBalt with Sweden as well as the integration of the Lithuanian electricity system into the European networks.

Other significant events

On 7 February 2012, the new version of the Republic of Lithuania Law on the Electricity System took effect. It establishes the legal framework for the development of the electricity market in Lithuania and for enhanced competitiveness and ensures separation of the electricity transmission system operator's activities from other companies operating in the electricity sector.

In July 2012, Litgrid prepared an annual plan on the development of the grids of the Lithuanian electricity system by the year 2021 and submitted it to the National Control Commission for Prices and Energy (NCC). The plan contains information on electricity demand, power plant capacities, electricity market forecasts, electricity transmission plan and its development and investments.

On 27 September 2012, NCC issued a licence to trade in biofuel to BaltPool, an energy resources exchange.

On 28 September 2012, as part of implementation of the EU Third Energy Package, Litgrid as an electricity transmission system operator was separated from other companies in the electricity sector. The shares in Litgrid that had been owned by Visagino atominė elektrinė UAB were transferred to a newly formed state-owned company EPSO-G which is subordinate to the Ministry of Energy.

On 12 November 2012, the transmission system operators of the Baltic States: Litgrid, Augstsprieguma Tikls (AST), and Elering concluded a memorandum of cooperation in joint regional research and development projects. The continuous regional projects are implemented in such areas as modelling of the electricity market, long-term planning of transmission networks' development, and supervisory control systems.

Litgrid is a member of ENTSO-E (European Network of Transmission System Operators for Electricity). Established in 2008, this organisation has 34 members - electricity transmission system operators of European states. Litgrid is an active participant in the organisation's activities related to the planning and implementation of the Lithuanian electricity infrastructure development projects and the plans of linking of electricity markets and integration of the electricity transmission systems.

Litgrid's subsidiaries and their operations

As of 31 December 2012, Litgrid Group of Companies consisted of Litgrid AB ("Litgrid"), BALTPOOL UAB ("Baltpool") and Tetas UAB:

Name	BALTPOOL UAB
Legal form	Private limited liability company
Date and place of registration	11-12-2009, Register of Legal Persons of the Republic of Lithuania
Business ID	302464881
Registered office address	A.Juozapavičiaus g.13, LT-09311, Vilnius
Telephone No	+370 5 278 2260
Fax No	+370 5 278 2707
Email	info@baltpool.lt; www.baltpool.lt
Type of activities	Energy resources exchange operator
Litgrid's shareholding	67%

Name	Tetas UAB
Legal form	Private limited liability company
Date and place of registration	08-12-2005, Register of Legal Persons of the Republic of Lithuania
Business ID	300513148
Registered office address	Senamiesčio g. 102B, LT-35116, Panevėžys
Telephone No	+370 45 504 618
Fax No	+370 45 504 684
Type of activities	Specialist transformer substation and distribution centre maintenance, repairs and installation services, testing services, design of energy facilities
Litgrid's shareholding	61.13%

As of 31 December 2012, Litgrid's shareholdings in other companies are as follows:

LitPol Link Sp.z.o.o (Poland)	50% of shares and voting rights
Elektros tinklo paslaugos UAB	25.03% of shares and voting rights
Technologijų ir inovacijų centras UAB	20.36% of shares and voting rights
NT Valdos UAB	0.35% of shares and voting rights
Nord Pool Spot AS	2.04% of shares and voting rights plus a rotating member of the Board

On 1 August 2012, Litgrid acquired 2.04% of shares in Nord Pool Spot, Europe's largest electricity exchange. This is a strategic investment enabling the company to participate in both Nord Pool Spot trading system and the board of the exchange. Shares in Nord Pool Spot were also acquired by Elering, the Estonian TSO; such right will be granted also to Augstsprieguma Tikls, the Latvian TSO, after the launching of the Nord Pool Spot bidding area in Latvia. The Baltic TSOs can appoint one member to the board of Nord Pool Spot for the term of office of two years. By agreement of the parties, Litgrid's representative was appointed for the first term.

Services provided by Litgrid Group of Companies

Litgrid as a transmission system operator provides the following services:

- electricity transmission;
- power reserving;
- trade in balancing and regulating energy;
- provision of public service obligations (PSO) and administration of PSO funds.

Electricity transmission

The transmission service consists of the transmission of electricity via high-voltage (330-110 kilovolt, kV) installations. The electricity transmission system operator (TSO) forwards electricity from generators to customers or suppliers. Transmission of electricity is a regulated activity. The main purpose of a TSO is to manage a high-voltage power transmission network and to ensure a reliable, efficient, transparent and secure electricity transmission of high quality.

Both demand for electricity and its generation were growing in Lithuania in 2012. Total electricity consumption amounted to 10.6 terawatt hours (TWh), a 2% increase compared with 2011. This increase shows that the national economy is recovering. In 2012, the demand for electricity was satisfied by both domestic generation and imports. Compared with 2011, local generation volumes increased 6%. In all, 4.7 TWh of electricity was generated in Lithuania in 2012, with co-generation facilities accounting for 65% of this quantity. Electricity generation from renewable resources has made a significant contribution to the domestic production as its share in the domestic generation increased by nearly one-sixth. Due to a rather dry summer, electricity generation by hydroelectric plants accounted for just one-tenth of the total generation.

In 2012, electricity consumption increased in all sectors, in particular in agriculture (12%). Consumption in the transport sector increased by one-tenth; industrial consumption increased 2.6% compared with 2012. Some growth has been recorded in the services and household sectors: 1.6% and 1% respectively.
Electricity imports decreased 1.8% in 2012. Imports accounted for 63% of total domestic consumption in 2012.

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Power reserving service

In order to secure reliable operation of the system, Litgrid purchases the service of reserving power in the power generation facilities and provides the power reserving service to customers. A power reserve is required in those cases when power generation decreases or power consumption increases suddenly and unexpectedly.

Trade in balancing power and regulating energy

Litgrid is responsible for ensuring a balance between electricity generation and consumption in the country. Balancing energy is the electricity consumed/generated not according to the consumption/generation schedules. Litgrid organises trading in balancing energy, buys and sells balancing energy necessary to ensure the balance between electricity generation and consumption in the country.

Regulating energy is the electricity bought and/or sold as instructed by TSO for the purposes of balancing generation and consumption. Litgrid organises auction trade in the regulating energy. Participants in the auction include suppliers of the regulating energy and those TSOs of other countries which are in a position to effectively change the generation and consumption regimes and which have entered into a relevant agreement with Litgrid.

Public interest services and administration of PSO funds

Public services obligations (PSO) in the electricity sector mean the services that ensure and enhance the national energy security and the integration and use of electricity produced of renewable energy resources. The list of PSO, the suppliers and the service provision procedures are approved by the Government of the Republic of Lithuania or an institution authorised by it in line with the public interest in the energy sector. PSO funds are funds paid to the public service obligations providers.

Public service obligations provided by Litgrid include:

- preparation and implementation of strategic projects related to enhanced energy security (international power links Lithuania-Sweden and Lithuania-Poland; integration of Lithuania's electricity system into the European Continental Network);
- connecting electricity generating facilities that use wind, biomass, solar or hydro energy to the transmission network; optimisation, development and/or reconstruction of transmission network relating to receipt and transmission of electricity generated from renewable energy resources;
- balancing of electricity generated from renewable energy resources;
- administration of PSO funds. Baltpool UAB was appointed as the PSO funds administrator from 1 January 2013 by Resolution of the Government of the Republic of Lithuania No 1338 of 7 November 2012.

The rules for the provision of PSO are laid down in the Procedure for the Provision of Public Service Obligations approved by Order of the Minister of Energy of the Republic of Lithuania No 1-283 of 8 October 2010. The rules for the administration of PSO funds are laid down in the Procedure for the Administration of the Funds of Public Service Obligations approved by resolution No O3-328 of 17 December 2010 of the NCC. The former Procedure establishes that Litgrid as a transmission system operator performs the functions of the PSO funds administrator, i.e. collects the PSO funds and pays them to the recipients specified by the Government.

Grid maintenance and repairs

Tetas UAB, a subsidiary of Litgrid, provides the following grid facilities' maintenance and repair services:

- carries out maintenance and repairs of electric equipment in the grid;
- performs construction of new energy facilities and reconstruction of existing energy facilities;
- provides electric equipment designing services.

Tetas UAB carries out its activities according to ISO 9001:2008 and ISO 14001:2004. A quality management and environmental management system, implemented in 2007, is applied to the operation of electric equipment up to 40 kV and to the design and construction of projects classified as extraordinary structures.

Electricity market operator's services

A transmission system operator as an unbiased participant in a electricity system is responsible for the development of the national electricity market. This is a usual European practice.

With the launching of the Lithuanian bidding area of Nord Pool Spot, the Nordic electricity exchange, on 18 June 2012, an important step was taken towards the implementation of the Baltic Energy Market Interconnection Plan initiated by the European Commission and the achievement of the objectives of the Lithuanian energy strategy. Baltpool which was an electricity exchange operator until 18 June 2012 is now performing the functions of the operator of an energy resources exchange.

Upon launching of the Nord Pool Spot electricity exchange, wholesale electricity prices have remained on previous levels. New developments in the Lithuanian electricity market became apparent in the 2nd half of 2012: the volumes of electricity imported from Russia were decreasing, whereas electricity imports from Estonia were growing. The imports from Estonia include electricity from the Nordic countries. Diversification of power sources will be possible after 2014 when the Estonia-Finland power link (Estlink 2) is put into operation, to be followed by the Lithuania-Sweden link (NordBalt) in 2015.

Environmental protection

Environmental impact assessment/screening procedures are carried out for the electricity transmission lines and transformer substations being designed. Conclusions drawn upon completion of these procedures are taken into consideration in the technical designs. Environmental protection requirements are set for the designing of new or reconstruction of existing electricity transmission infrastructure facilities. The aim is to minimise the impact upon the environment. In all tendering procedures there is a requirement that contractors have an environmental management system according to LST EN ISO 14001 in place; contractors are obligated to manage waste generated during construction and to provide documents proving such management activities.

Litgrid operates in accordance with the waste and wastewater management regulations as well as regulations governing the safe use of chemical substances; environmental requirements are established for both new facilities and facilities under reconstruction.

Responsibility for the management of waste generated during operation of energy facilities (transformer oils and waste related to the use of such oils, batteries etc.) lies with contractors that operate such facilities under contracts. Litgrid has taken out civil liability insurance for the damage to the environment in case of emergencies or equipment failure.

Customers of the TSO

Direct customers of Litgrid include users of the transmission grid and suppliers of balancing and regulating electricity,

Users of transmission grid:

- Lesto, the distribution network operator;
- customers whose electric equipment is connected to the transmission grid and who purchase electricity for consumption;
- electricity generating companies.

Suppliers of balancing and regulating energy include electricity generating companies and suppliers.

Employees

As of 31 December 2012, Litgrid Group employed 701 people including Litgrid - 203, Tetas - 486, and Baltpool - 12 (including three Litgrid's employees working with Baltpool on secondment basis). In 2012, staff turnover at Litgrid was 12.2%.

The payroll fund in the reporting year amounted to 27,879 thousand litas.

	Number of employees as of 31 December 2012	Average pay, LTL
Blue-collar workers	288	1 961
Specialists	397	3 889
Managers	16	12 919
Total:	701	3 495

Staff educational attainment by employee groups as of the end of the period:

	31 December 2012	31 December 2011
Number of employees	701	623
educational attainment:		
higher education	364	358
further education	195	144
secondary / secondary vocational education	142	121

A collective agreement concluded by and between Litgrid and the employees' trade union defines and ensures a fair policy of remuneration for work and establishes the social and economic relationship between the employer and the employees.

Litgrid launched a Programme for Young Specialists in 2012. The main criteria applied in the employee recruitment process include the knowledge acquired during academic studies and research work, personal qualities, the wish to learn from best specialists of the company, and the ambition to contribute to the implementation of the national energy strategy. No requirement of previous service record is set for the candidates. Open-ended employment contracts are concluded with selected young specialists; if necessary, they are enabled to combine work and studies. During the first 12 months, the young specialists take part in designated development programmes; a curator is appointed for each specialist.

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Corporate social responsibility

Litgrid's activities are based on the principles of social responsibility, sustainable development, transparency and advanced protection of the environment. The work performed by Litgrid is a precondition for successful functioning of the national economy, whereas the corporate long-term objectives and the strategic energy projects underway contribute significantly to the securing and consolidating the energy independence of the country. The scope and significance of the projects implemented by the company encourage its management and employees to take guidance from the highest professional and ethical standards and to contribute to the process of increasing awareness and responsibility of the public as well as promoting the public welfare.

A dialogue with communities affected by the construction or planned construction of high-voltage electricity transmission grids is an underlying principle of Litgrid's social responsibility. In 2012, Litgrid held over fifty meetings with community members in order to present the new electricity infrastructure projects to the public as early as possible. At such meetings, residents received information about the progress of infrastructure projects implemented in close proximity to their communities, the impact of electromagnetic fields on health and other issues; discussions were held on civic aspects of society, coordination of the public and private interests etc.; the Plan on the Development of the Lithuanian Electricity Transmission Grid for 2012-2021 was presented. The company also organised public seminars on subjects related to the electricity system, electricity market, challenges and opportunities raised by synchronisation, and smart technologies in the energy sector.

Information on research and development activities of the Group

Litgrid formulates its annual research and development programmes aimed at the development of the electricity system and at increasing the transmission network's efficiency. Energy facilities are being reconstructed, with old facilities replaced by new ones and with modern relay protection, system automation, control, data capture and transmission systems implemented. Facilities' construction and reconstruction plans are drawn up based on scientific research and studies and are updated on an annual basis.

Seeking to become an integral part of the European electricity system, the Baltic States coordinate their efforts in implementing the synchronisation-related strategic projects and collaborate in the research and development area. In November 2012, the Lithuanian, Latvian and Estonian TSOs concluded a memorandum of cooperation in joint R & D projects of regional significance. The continuous regional projects are implemented in such areas as modelling of the electricity market, long-term planning of transmission networks' development, and supervisory control systems.

Main characteristics of internal control and risk management systems

Consolidated financial statements of Litgrid Group are prepared according to the International Financial Reporting Standards adopted by the EU. The internal control in place at the company covers control over the business processes related to service provision, the operation of information systems, and the drawing up of financial statements.

Drawing up of consolidated financial statements is governed by Litgrid's accounting policies and procedures that ensure that accounts of the company are kept in accordance with the International Financial Reporting Standards and the Lithuanian laws and regulations. Litgrid's procedures describe the potential risks related to accounting and drawing up of financial statements and the risk management principles and methods; persons responsible for the monitoring of risks are specified in the procedures.

Persons responsible for the risk management process have been appointed. The Internal Audit and Prevention Department assesses the corporate business processes and related risks on a regular basis and makes relevant recommendations to the company's management.

Enhancing IT competences

Efficient IT solutions are becoming increasingly important for the company: information technologies have become an integral part of the electricity system planning and control as well as equipment control and maintenance. In line with the provisions of the EU Third Energy Package, which requires separation of the electricity generation, transmission and distribution activities, Litgrid has assessed the need for independent management of its activities in the information technologies and communications (ITC) area. In 2012, Litgrid launched its programme on IT change. Before 2012, all IT services were provided to Litgrid by Technologijų ir inovacijų centras UAB; however, due to the need to enhance the in-house IT competences and to meet the legal requirements set for a transmission system operator, the company will establish an IT division in 2013. The new division will take over the ownership, development and servicing of the main IT systems. It is expected that this will ensure the continuity of Litgrid's IT solutions, security control and transparency of operations.

II. Financial Information

The table below presents the operating results of the Group and the Company.

	2012		2011	
	Group	Company	Group	Company
Financial indicators (LTL'000)				
Sales revenue related to electricity	430 527	430 114	383 193	383 052
Other revenue	77 840	8 188	51 613	5 892
EBITDA	155 296	153 424	111 338	106 605
Profit (loss) before tax	31 035	30 176	(19 714)	(23 512)
Net profit (loss)	26 114	25 445	(16 779)	(20 324)
Cash flows from core operations	124 998	135 691	101 832	104 256
Ratios				
EBITDA margin (%)	30,5	35,0	25,6	27,4
Average return on equity (%)	1,6	1,6	(0,9)	(1,1)
Average return on assets (%)	1,0	1,0	(0,7)	(0,9)
Shareholders' equity / assets (%)	61,5	62,2	75,9	76,5
Liabilities / equity (%)	42,8	40,8	22,2	21,1
Financial liabilities / equity (%)	12,0	11,7	0,0	0,0
Free cash flows / turnover (%)	27,2	34,1	19,5	22,4
Price / earnings per share	36,12	-	-	-
TSO operating indicators				
Quantity of transmitted electricity, m kWh		9 239		9 279
Production costs in transmission grid (%)		2,11		2,17
END (energy not delivered), MWh *		7,36		7,55
AIT (Average Interruption Time), min. *		0,32		0,35

* Only for reasons attributable to the operator and for unknown reasons.

Revenue

Litgrid Group revenue in 2012 totalled LTL 508.4 m and has increased 16.9% compared with 2011.

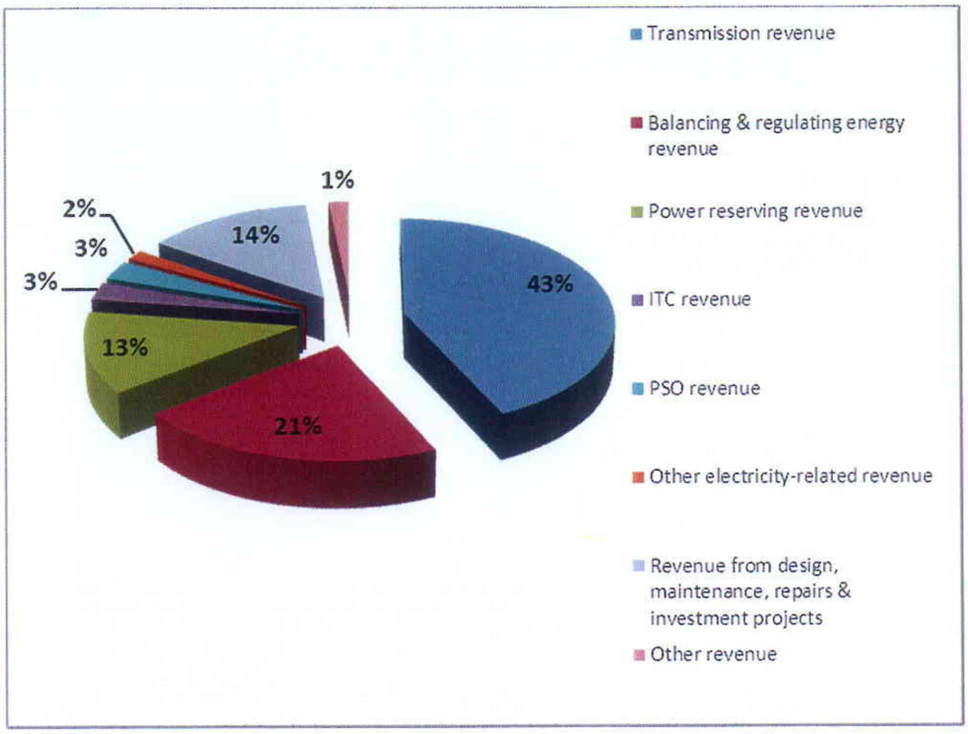
Transmission revenue increased 7.3% compared with 2011 and amounted to LTL 219.5 m; this accounts for 43.2% of total revenue of the Group. In 2012, Litgrid delivered, via the high-voltage transmission grids, 9.239 m kWh of electricity (-0.4% compared with 2011).

8.353 m kWh of electricity was delivered to Lesto, the distribution network operator (+2.4% compared with 2011), and 886 m kWh to other customers (-20.7%). This was because lower electricity demand on the part of other customers due to increased generation at own facilities and due to repair works carried out at Orlen Lietuva oil refinery. Increase in Litgrid's income in 2012 was determined by a higher actual price for electricity transmission: 2.38 cents/kWh (2011: 2.21 cents/kWh).

Revenue from sale of balancing and regulating electricity increased 25.4% to LTL 108.8 m. Revenue from the power reserving service increased 16.4% to LTL 64.6 m. ITC revenue (fee paid for electricity imports/exports from/to countries outside the European Union) totalled LTL 14.2 m.. PSO revenue totalled LTL 15.1 m. Other electricity-related income: income from reactive energy, transit and connection of new customers totalled LTL 8.2 m.

Revenue from design, maintenance, repairs and investment projects increased 51.2% to LTL 69.7 m; other income increased 47.8% to LTL 8.2 m.

Revenue structure



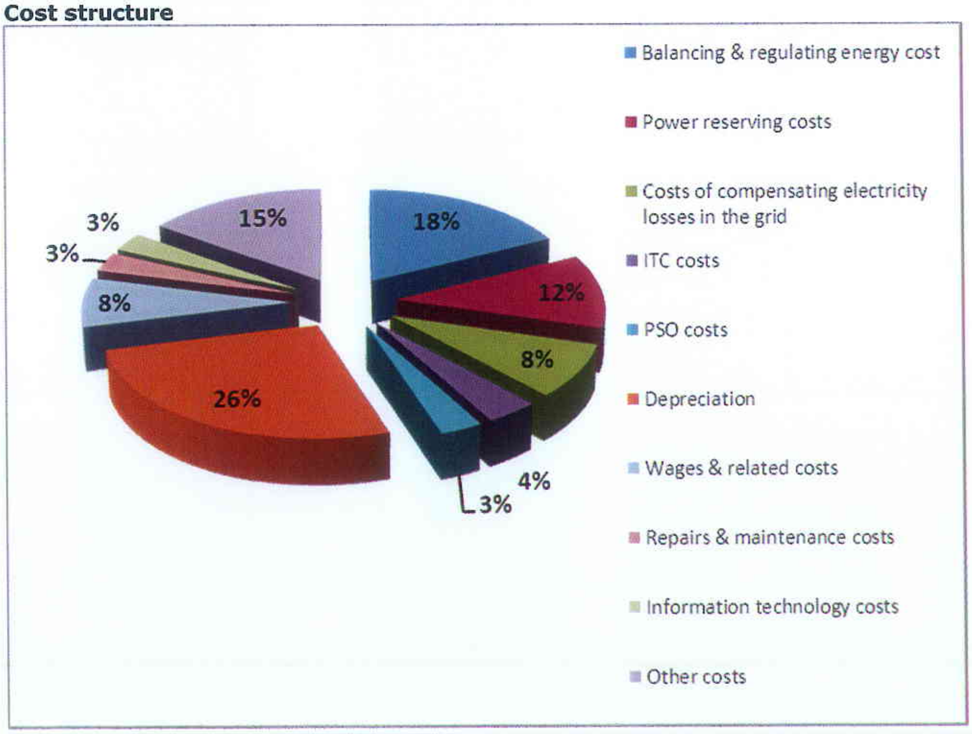
Costs

Costs of the Group totalled LTL 480 m in 2012, which means a 4.5% increase compared with 2011 (LTL 459.2 m).

Costs of purchase of electricity and related services account for the largest part of the Group's costs: LTL 215.7 m or 44.9%. Compared with 2011, a 7.2% increase in such costs was recorded, including a 27.3% increase in the costs of balancing and regulating energy (up to LTL 85.3 m), a 11.9% decrease in the power reserving costs (down to LTL 56.5%), a 3% decrease in the electricity purchase costs to cover production loss in the transmission network (down to LTL 40.8 m), a 1% increase in transit (ITC)costs (i.e. participation in the transit compensation mechanism for the European TSOs) (up to LTL 18.4%) and a 49.9% increase in the PSO provisions costs (up to LTL 14.7 m).

Depreciation and amortisation costs decreased 5.5% to LTL 126.3 m; costs of other activities increased 11.1% to LTL 138 m.

Cost structure



LitGRID

Profit

Profit before tax of the Group totalled LTL 31 m in 2012, whereas in 2011 a LTL 19.7 m loss before tax was incurred.

Profitable operations of the Group in 2012 compared with 2011 were mainly determined by higher income from electricity transmission (by LTL 14.8 m), higher income from power reserving (by LTL 9.1 m), lower power reserving costs (by LTL 7.6 m), lower non-current asset write-off costs (by LTL 11.5 m), and lower depreciation costs (by LTL 7.3 m).

The Group's EBITDA in 2012 totalled LTL 155.3 m, which is a 39% increase compared with 2011 (LTL 111.3 m). The EBITDA margin increased to 30.5% (2011: 25.6%).

Balance sheet and cash flows

As of 31 December 2012, assets of the Group totalled LTL 2495 million. Non-current assets of the Group accounted for 84.8% of its total assets. On 30 April 2012, the meeting of shareholders of Litgrid resolved to pay dividend totalling LTL 390.9 m. Due to payment of dividend the share of the shareholders' equity shrunk from 75.9% of the Group's assets as of 31 December 2011 to 61.5% as of 31 December 2012.

As of 31 December 2012, the Group's financial liabilities to credit institutions amounted to LTL 184.1 m; the ratio between financial liabilities and equity was 12%. Financial debts payable after 1 year accounted for 75% of total financial liabilities. Cash and cash equivalents totalled LTL 127.4 m, including LTL 99.3 m as an amount reserved for the implementation of the NordBalt link project (PSO funds and EU assistance received). The company has disclosed the balance of the PSO funds administered by it, i.e. LTL 59.9 m, kept in a bank account, as "Other Current Financial Assets".

In 2012, the Group's net cash flows from operations totalled LTL 125.2 m (2011: LTL 101.8 m), payments for non-current tangible and intangible assets acquired amounted to LTL 114.9 m (2011: LTL 160.8 m). Dividend totalling LTL 389.3 m was paid in 2012.

Net cash flows of the Group excluding cash flows from financial activities and cash flows to term deposits and investment held to maturity totalled LTL 138.3 m in 2012 (2011: LTL 84.5 m).

Operating indicators of TSO

According to the electricity transmission reliability and service quality requirements approved by the NCC, two indicators are used to determine the electricity transmission reliability: END (energy not delivered) and AIT (average interruption time). The following minimum indicator values were set by the Commission for 2012: END – 5 MWh (actual: 7.36 MWh), AIT – 0.26 min. (actual: 0.34 min.).

Investments in non-current assets

The larger part of the Group's investments was earmarked for the reconstruction and development of the transmission network: LTL 96.4 m (69% of total investments). Investments in the implementation of strategic projects amounted to LTL 43.9 m, accounting for 31% of total investments.

Risks

Political risk

Electric power sector has vital importance for the economy and profound influence over the national political and economic interests. The structure and management of the electricity sector and the activities of enterprises operating in the sector are governed by the Republic of Lithuania Law on the Electricity System and the related regulations. Any amendments to the relevant national laws or the European Union energy legislation can affect the operating results of the Litgrid Group.

Prices for the electricity-related services are regulated, with the price ceilings set by the SCPEC. Operating results of Litgrid are directly dependent on such decisions.

Financial risks

Companies of Litgrid Group face financial risks in their operations such as credit risk, liquidity risk and market risk (including currency exchange risk, interest rate risk and securities' price risk). By managing these risks the companies seek to minimise the effects of such risks on the Group's financial results. Risk management is performed by the Financial Planning and Treasury Division of the Company, acting in accordance with the Treasury Management Procedure approved by the Litgrid Board.

Information about financial risks and their management is presented in Note 33 to the Consolidated and the Company's Financial Statements for 2012.

Technical risk

The Lithuanian energy system is interrelated with the neighbouring energy systems by a number of connecting lines. The available means to manage capacities and energy balances are limited, whereas the power and energy control itself is a complicated task.

About 50% of the equipment in the TSO's transformer substations 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 or breakdowns of the main facilities used by Litgrid in its operations can have a negative impact on the Company's financial results.

Environmental risk

Companies of the Group work in accordance with the environmental regulations that provide for appropriate marking, use and storage of dangerous materials and ensure that all the equipment used meet the requirements set for them. Operation of facilities posing an increased risk to the environment due to pollutants or waste complies with the conditions laid down in the Integrated Pollution Prevention and Control Permits issued by regional environmental protection departments.

References and explanations concerning information provided in the Consolidated Financial Statements

More detailed explanations of financial information are provided in the Explanatory Notes to the Financial Statements for 2012.

Dividend policy

The Government of the Republic of Lithuania, which controls 97.5% of the shares in Litgrid indirectly, through EPSO-G UAB, has established the principles of dividend payment for the state-controlled shares by its resolution No 20 of 14 January 1997 (new version of resolution No 359 of 4 April 2012). The general meeting of Litgrid's shareholders held on 30 April 2012 resolved to pay dividend totalling LTL 390.9, or LTL 0.775 per share.

III. Information about Share Capital and Shareholders

Litgrid has not purchased own shares and no own shares were acquired or transferred in the reporting period. Subsidiaries of the company have not acquired shares in the Company either.

On 16 November 2010, the authorised capital of LTL 504,331,380 was registered in the Register of Legal Persons of the Republic of Lithuania. The authorised capital has been divided into 504,331,380 ordinary registered shares of one Litas nominal value. All the shares are fully paid and grant equal rights to the shareholders. Since 22 December 2010, Litgrid's shares are included in the Auxiliary Trading List of NASDAQ OMX Vilnius, issue ISIN code LT0000128415.

As of 31 December 2012 the Company has 5,252 (five thousand two hundred fifty-two) shareholders. Under the provisions of the EU Third Energy Package, on 28 September 2012 Litgrid as a transmission system operator was separated from other companies in the energy sector. The shares in Litgrid that had been held by Visagino atominė elektrinė UAB were transferred to a newly formed state-controlled company EPSO-G wholly owned by the Ministry of Energy of the Republic of Lithuania. As of 31 December 2012, EPSO-G UAB (A.Juozapavičiaus g. 13, LT-09310 Vilnius, business ID 302826889) held 491,736,153 ordinary registered shares in the Company, i.e. 97.5% of the authorised capital.

On 25 October 2011, Litgrid and AB SEB bankas concluded an agreement on accounting for securities of the Company and the securities-related services. The agreement expired on 1 February 2013.

On 28 December 2012, Litgrid and Swedbank, AB concluded an agreement on accounting for securities of the Company and the securities-related services from 1 February 2013 until 31 January 2016.

Securities of the Company's subsidiaries are not traded in security exchanges.

Trade in Litgrid securities in the regulated markets:

Indicator	2011	2012
Opening price, LTL	2.479	1.392
Highest price, LTL	2.483	2.365
Lowest price, LTL	1.139	1.329
Closing price, LTL	1.392	1.806
Average price, LTL	1.764	1.948
Turnover, units	681 991	1 306 805
Turnover, LTL m	1.20	2.55
Capitalisation, LTL m	701.77	910.73

Turnover and price of Litgrid shares during the period from the start of trading in the shares on 22 December 2010 until 31 December 2012:

Comparison of Litgrid (LGD1L) share price with OMX Baltic Benchmark GI (OMXBBGI) and OMX Vilnius (OMXV) indexes during the period from the start of trading in the shares on 22 December 2010 until 31 December 2012:

Baltic market indexes

The Articles of Association

Amendments to the Articles of Association of Litgrid may be made according to the procedure established by the Republic of Lithuania Law on Companies. Decisions can be adopted by at least 2/3 majority vote of shareholders attending the meeting.

The General Meeting of Shareholders

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

The scope of competence of the general meeting of shareholders, the procedures for its convention and adoption of decisions are established in the laws and regulations and the Articles of Association of the Company.

The Board

The Board is formed of five members for the term of office of four years. The term of office starts after closing of the general meeting of shareholders at which the Board was elected and ends on the date of the general meeting of shareholders held in the last year of the term of office of the Board.

If the Board or any member thereof is recalled, resigns or ceases performing its/his/her duties for any other reason prior to the end of the term, the new Board or the new members is elected for the period equal to the remaining term. When proposing candidacies to the Board members, a shareholder or his/her representative must provide written information on the candidate's qualifications, experience and fitness for the position. The candidates must submit a written agreement to become a Board member and a declaration of interests.

The Board members elect a chairperson from among themselves.

The Board acts in accordance with the laws and regulations, the Articles of Association, resolutions of the general meeting of shareholders, and regulations of the Board.

The Board is a collegiate management body. Its scope of competence and the procedures for the passing of resolutions and election and recalling of members are established in the laws and regulations and the Articles of Association of the Company.

The Board reports to the general meeting of shareholders.

Areas of activities of the Board

The Board considers and approves the operating strategy, budget and organisational structure of the Company, staff positions and staff number, establishes the terms of employment contract for the Head of the Internal Audit Unit, approves the job description for this position, gives incentives and imposes penalties. The Board adopts decisions on the transfer of shares or rights attached to them, issue of debentures, granting of support, participation of the Company in associations of various types, formation and operations of subsidiaries and branches. Furthermore, the Board decides on transactions over LTL 10 m in value and on disposal of facilities that are of strategic significance for national security.

The Board resolves issues presented to it by the Chief Executive Officer . Where consent of the general meeting of shareholders is required for a resolution of the Board, the resolution may only be implemented subject to such consent.

Areas of activities of the Head of the Company

The Chief Executive Officer is a single-handed managerial body of the Company. The Chief Executive Officer organises activities of the Company, acts on its behalf, and concludes transactions on a single-handed basis.

The scope of competence and the procedures for the election and recalling of the Chief Executive Officer are established in the laws and regulations and the Articles of Association of the Company.

Members of the Board, the Chief Executive Officer and the Chief Financier of Litgrid:

Position	Name	Start date	End date	Number of shares in the issuer
The Board				
Chairman of the Board	Arvydas Darulis	2011-11-03	2013-01-25	-
Board Member	Violeta Greičiuvienė	2010-10-28		-
Board Member	Virgilijus Poderys	2010-12-08		-
Board Member	Viktorija Sankauskaitė	2011-11-03		-
Board Member	Valentinas Pranas Milaknis	2011-04-01		- -
Chief Executive Officer	Virgilijus Poderys	2010-12-08		-
Chief Financier	Tatjana Didikienė	2010-11-17	2012-05-02	-
	Svetlana Sokolskytė	2012-07-02		-

Members of the Board

Arvydas Darulis, Chairman of the Board (until 2013-01-25)
Born in 1965. Faculty of Industrial Economics and Management at Vilnius University in 1986-1991; economist's qualifications. Completed training programmes at the Baltic Institute of Corporate Governance and the Baltic Economic Management at Dalhousie University (Canada). Head of the Commercial Privatisation Division of the Ministry of Economics of the Republic of Lithuania in 1991-1994; Auditor at KPMG Lietuva in 1994-1996; Director of the Public Institution Lithuanian Small and Medium-Size Business Development Agency in 1996-2007; Director of the Territorial Network Management Department of AB bankas Snoras in 2007-2009; Head of the Strategic Projects Division of the Ministry of Energy the Republic of Lithuania in 2009-2010; Energy Vice-Minister in 2010-2012.

Violeta Greičiuvienė, Board Member
Born in 1972. Faculty of Business Management of Vilnius Gedimino University of Technology in 1990-1996. Chief Specialist of the Nuclear Energy Division, Energy Development Department, Ministry of Economics of the Republic of Lithuania in 1997-2004. Head of the Ignalina NPP Coordination Division, Energy Development Department, Ministry of Economics of the Republic of Lithuania in 2004-2005. Attaché of the Republic of Lithuania for Nuclear Energy in the Standing Representative Office of the Republic of Lithuania at International Organisations, Vienna, in 2005-2010. Since 2010, Head of the Strategic Projects Division of the Ministry of Energy the Republic of Lithuania since 2010.

Valentinas Pranas Milaknis, Independent Board Member
Born in 1947. Graduated from the Faculty of Device Manufacture, Vilnius Branch of Kaunas Polytechnic Institute in 1970, radio engineer's diploma. Engineer and Deputy Chief Engineer at the Communal Facilities Design Institute in 1971-1989. Director of Alna AB in 1989-1999. Minister of the Economy of the Republic of Lithuania in 1999-2000. Director General of the Lithuanian Radio and Television in 2001-2003. President of Alnos biuro sistemos UAB in 2003-2007. Chairman of the Board of Alna Group 2007-2009. Advisor to the Prime Minister of the Republic of Lithuania and Chairman of the Committee on Improvement of Governance in 2009-2010. Since 2011, Member of the Board of Alna UAB.

Virgilijus Poderys, Board Member and Chief Executive Officer of Litgrid
Born in 1961. Faculty of Physics of Vilnius University in 1979-1984. The Baltic Management Institute and Vytautas Magnum University in 1999-2000. Chairman of the State Securities Commission in 1997-2006. Financial Advisor to the Prime Minister of the Republic of Lithuania in 2006-2007. Chairman of the State Commission on Prices and Energy Control in 2007-2009.

Viktorija Sankauskaitė, Board Member
Born in 1979. Kaunas University of Technology in 1997-2005, Master's Degree in energy. Chief Specialist of the Strategic Energy Projects Division of the Energy Department of the Ministry of the Economy of the Republic of Lithuania in 2007-2008, Head of the same division in 2008-2009. Chief Specialist of the Energy Efficiency Division of the Ministry of the Economy in 2009-2010. Head of the Renewable Energy Resources Division of the Ministry of Energy since 2010.

No remuneration for work in the Board was paid to the Chief Executive Officer . The independent member of the Board received LTL 16,500 for the year. No remuneration for work in the Board was paid to other Board Members. During the reporting period, total amount of pay to the Chief Executive Officer and the Chief Financer was LTL 354,400, with the average pay per person (the Chief Executive Officer and the Chief Financer) being LTL 177,200.

Information about major related-party transactions, their amounts, type of related-party relationships and other information about transactions which is necessary for the understanding of the Company's financial position is provided in Note 31 to the Financial Statements.

Information about compliance with the Code of Corporate Governance is provided in the Annex to this Report.

Transparency

The Company complies with basically all provisions of Sections IV-VIII of the Transparency Guidelines except:
- the Company does not publish managers' and employees' salaries;
- the Company does not specify the average monthly pay by divisions in the Annual Report.

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Notices of material events published by Litgrid in 2012:

2012.11.29	Nine-month profit of Litgrid Group – LTL 19.7 million
2012.11.13	Funds of public service obligations in the electricity sector to be administered by BALTPOOL UAB
2012.10.26	National Control Commission for Prices and Energy announced the Prices for Electricity Transmission Service
2012.10.05	LITGRID AB Signed Long-Term Credit Agreement with Finland's Pohjola
2012.09.28	LITGRID AB received a notification on the acquire and disposal of a block of shares
2012.09.28	LITGRID AB shares held by UAB Visagino Atominė Elektrinė transferred to UAB EPSO-G
2012.09.28	Shares of UAB Visagino Atominė Elektrinė transferred to the Ministry of Economy
2012.09.27	Information on the upper limit of the price for transmission service using high voltage transmission networks for 2013
2012.09.18	Cancelled Extraordinary Meeting of Shareholders of LITGRID AB
2012.09.06	Convocation of Extraordinary General Meeting of Shareholders of LITGRID AB
2012.08.31	Litgrid Ends First Half-Year 2012 with Profit
2012.08.01	LITGRID AB becomes Nord Pool Spot shareholder
2012.07.19	Lithuanian Electric Energy System Network Development Plan up to 2021 Released for Public Consultation
2012.07.04	Government Gives Go-Ahead to LITGRID AB Stock Transfer to New Company
2012.06.20	Resolutions Adopted on June 20, 2012 at the Extraordinary General Shareholders Meeting of LITGRID AB
2012.05.29	Convocation of Extraordinary General Meeting of Shareholders of LITGRID AB
2012.05.25	LITGRID AB revenue increased in 2012 Q1
2012.05.23	Draft Government resolution on Litgrid unbundling submitted
2012.05.23	Announcement of LITGRID AB Dividend Payment Procedure for 2011
2012.05.18	„Litgrid" will borrow 58 million Euros
2012.05.02	CORRECTION: Annual information for the year 2011 confirmed by the Ordinary General Shareholders Meeting
2012.04.30	Resolutions Adopted on April 30, 2012 at the Ordinary General Shareholders Meeting of LITGRID AB
2012.04.06	Convocation of Ordinary General Meeting of Shareholders of LITGRID AB
2012.04.06	LITGRID AB Obliged to Implement Activity Separation Plan by 1 October
2012.03.30	Litgrid Prepared the Unbundling Plan
2012.03.26	Nord Pool Spot to Launch Bidding Area in Lithuania
2012.03.15	Preferred method for separation of LITGRID AB to be presented by March 30, 2012
2012.02.29	LITGRID AB announces interim activity results for 2011
2012.02.21	Parties Responsible for Preparation of Technical Design of the LitPol Link International Power Link Selected
2012.02.08	New Version of the Law on Electricity Comes into Effect
2012.02.01	Klaipėda Transformer Substation Reconstruction Contract Signed

For full information about the material events published in 2012, please visit the website of the Vilnius Securities Exchange www.nasdaqomxbaltic.com/market/?pg=news and the Company's website www.litgrid.eu.

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LITGRID AB Notice of Compliance of the Code of Corporate Governance for Companies Listed on AB NASDAQ OMX Vilnius

According to Article 21(3) of the Republic of Lithuania Law on securities and Clause 20.5 of the Trading Rules of AB NASDAQ OMX Vilnius, this Notice issued by LITGRID AB discloses how the Company complies with the provisions of the Code of Corporate Governance approved by the AB NASDAQ OMX Vilnius for companies whose securities are traded in the regulated market. If the Code or any provision thereof is not complied with, the reasons therefor are explained.

PRINCIPLES/RECOMMENDATIONS	YES/ NO	COMMENTS
Principle I: Main Provisions **The main purpose of the company should be the satisfaction of the shareholders' interests, at the same time ensuring constant increase in the value of shareholders' equity**		
1.1. The company should formulate and publish the corporate development strategy and objectives, clearly stating how it plans to act in the interests of the shareholders and augment the shareholders' equity.	YES	The main lines of development and the strategy of the Company are published in the Company's website www.litgrid.eu and in the Annual and Interim Reports of the Company.
1.2. Activities of all corporate management bodies should be focussed on the achievement of strategic goals taking account of the need to augment the shareholders' equity.	YES	The Board of the Company adopts the most important strategic decisions related to the increase in the shareholders' equity (optimisation of operating functions and structure of the Company; other actions increasing the operating efficiency and cutting of costs). The Head of the Company and the advisory body formed by him, i.e. the Management Council organise and implement the Company's economic, commercial and financial activities.
1.3. Corporate supervision and management bodies should closely cooperate in order to maximise the benefits for the company and the shareholders.	YES	No Supervisory Council as a collegiate supervisory body is formed in the Company. The Company forms the Board which represents interests of the shareholders. The Board meets on a regular basis, the Board Members receive information about the Company's operations at the meetings.
1.4. Corporate supervision and management bodies should ensure that rights and interests of other parties participating in or related to the Company's operations (employees, creditors, suppliers, customers and members of local community) are respected in addition to the rights and interests of the shareholders.	YES	The bodies of the Company respect the rights and interests of the persons participating in and related to the Company's activities. 1. Since its formation the Company collaborates and develops social partnership with the employee representatives (a collegiate agreement has been concluded). 2. The Company discharges its financial liabilities and other obligations to creditors. 3. The Company implements social projects involving children, youth, local communities and other social groups. More detailed information about the Company's initiatives is published in its website.
Principle II: Corporate governance system **The corporate governance system should ensure strategic management of the company, effective supervision over corporate management bodies, due balance and division of functions between corporate bodies, and safeguarding of shareholders' interests.**		

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2.1. Apart from the bodies mandatory under the Republic of Lithuania Law on Companies – the general meeting of shareholders and the head of the company, it is recommended that both collegiate supervisory body and collegiate management body is formed by the company. Formation of the said bodies enable a clear division of management and supervision functions in a company and accountability and control of the head of the company, which leads to a more effective and transparent corporate governance process.	NO	No Supervisory Council as a collegiate supervisory body is formed in the Company. The Company's management bodies include the Board and the Head of the Company. To assist the Head of the Company in organising and carrying out the Company's economic, commercial and financial activities, an advisory body – the Management Council has been established. The Management Council consists of the Director General, Directors of Departments, and the Manager of the Legal Division. The Company will consider forming a collegiate supervisory body in 2013.
2.2. The collegiate management body is responsible for the strategic management of the company and performance of other key corporate management functions. The collegiate supervisory body is responsible for the effective supervision of the corporate management bodies.	YES NO	 No Supervisory Council as a collegiate supervisory body is formed in the Company.
2.3. Should the company decide to form only one collegiate body, it is recommended that this body is a supervisory one, i. e. the supervisory council. The supervisory council is responsible for the effective supervision over the functions performed by the head of the company.	NO	No Supervisory Council as a collegiate supervisory body is formed in the Company.
2.4. The collegiate supervisory body elected by the general meeting of shareholders should be formed and act according to the procedures laid down under Principles III and IV. Should the company decide to form a collegiate management body – the board – only, Principles III and IV should apply to the board to the extent to which this does not contradict the substance and purpose of this body.	YES/ NO	Principles III and IV have not been fully implemented by the Company, however, the Company complies with all the legal provisions on the formation of a collegiate management body. It should also be noted that the Company is engaged in the power transmission activities, therefore, its operations are strictly regulated by legal acts and supervised by the relevant authorities (State Commission on Control of Prices and Energy etc.). This ensures that transparent and effective decisions are adopted and the principles of non-discrimination of customers, reduction of costs etc. are implemented. No Supervisory Council as a collegiate supervisory body is formed in the Company.
2.5. The numbers of members of the corporate management body (executive directors) and supervision body (consulting directors) should be such that an individual or a small group of individuals is/are not able to dominate the decision-adoption process.	YES	The Board of the Company consists of 5 (five) members. The Board passes resolutions at its meetings. A meeting of the Board is considered to be valid and the Board may pass resolutions if at least 4 (four) members of the Board are present. A resolution is deemed to be adopted when the number of votes "for" is larger than the number of the votes "against". No Supervisory Council as a collegiate supervisory body is formed in the Company.
2.6. Consulting directors or members of the supervisory board		No Supervisory Council as a

should be appointed for a defined term, with the opportunity for individual re-election for a maximum term allowed by the Lithuanian legislation in order to ensure the growth in professional experience and sufficient re-approval of their status. In addition, dismissal should be provided for, however, this procedure should not be easier that the procedure for the dismissal of an executive director or a member of the board.	N/A	collegiate supervisory body is formed in the Company. The Board is elected for the term of office of 4 (four) years. This term is the maximum term permitted under the Republic of Lithuania Law on Companies. The general meeting of shareholders may recall the Board in full or in part prior to the end of the term.
2.7. The chairman of a collegiate body elected by the general meeting of shareholders must be a person whose current or previous position is not an obstacle to independent and unbiased supervision. Where only the board and not the supervisory council is formed in the company, it is recommended that the chairman of the board and the head of the company are different persons. Former head of the company should not be immediately appointed as a chairman of a collegiate body elected by the general meeting of shareholders. Where the company decides not to follow these recommendations, information about measures taken to ensure unbiased supervision should be provided.	YES	The Board of the Company and the Chairman of the Board are elected according to the provisions of the Republic of Lithuania Law on Companies. The Head of the Company has not been elected as the Chairman of the Board.
Principle III: Procedure for the formation of a collegiate body elected by the general meeting of shareholders **The procedure for the formation of a collegiate body elected by the general meeting of shareholders should ensure representation of interests of minority shareholders, accountability of the body to shareholders, and objective supervision over activities of the company and its management bodies**		
3.1. The mechanism of formation of a collegiate body (hereinafter for the purposes of this Principle – "collegiate body") elected by the general meeting of shareholders should ensure objective and unbiased supervision over corporate management bodies as well as proper representation of interests of minority shareholders.	YES	The Board is elected by the general meeting of shareholders of the Company according to the provisions of the Republic of Lithuania Law on Companies.
3.2. Names, education information, qualifications, professional experience, information on current position, other important professional obligations and potential conflicts of interests of candidates to members of collegiate management bodies should be disclosed to the company's shareholders prior to the general meeting so that the shareholders have enough time to decide on the voting on the candidates. In addition, any circumstances that may affect the candidate's independence (a model list is provided in Recommendation 3.7) should be disclosed. The collegiate body should be informed about any subsequent changes in the information disclosed under this p. 3.2. The collegiate body should collect the disclosed information on members and include them in its annual report.	YES/ NO	Information about candidates for collegiate bodies is presented to the shareholders according to the procedure established by the laws prior to the start of the general meeting of shareholders the agenda of which contains an item of election of the Board Members, and such information is not published in advance. According to the Articles of Association of the Company, each candidate to the Board Member's position must submit to the general meeting of shareholders a declaration of the candidate's interests, stating therein any circumstances that could give rise to a conflict of interests between the candidate and the Company. In case if such circumstances arise, the Board Member must immediately notify such new circumstances to the Company and the Board in writing. Information about positions held by the Board Members or their participation in other companies is collected on a regular basis and published in the Annual Report and the website of the Company.
3.3. Where a proposal is made for the election of a member of a collegiate management body, his competences necessary for the work in the body must be specified. In order that the shareholders and investors can assess whether the competences remain valid, in every annual report the collegiate body must	YES/ NO	Information about the candidates to the Board Members is presented to the general meeting of shareholders according to the procedure established in the

include information on its composition and specific competences of its members related to their work in the body.		Republic of Lithuania Law on Companies (see Comment on Item 3.2). The information on candidates presented at the general meeting of shareholders includes work experience, positions held and other information on the candidate's competences. Information about positions held by the Board Members or their participation in other companies is collected on a regular basis and published in the Annual Report and the website of the Company.
3.4. . In order to maintain a proper balance of qualifications of members in a collegiate body, the composition of the body should be set in line with the structure and type of operations of the company and should be subjected to period review. The body should ensure that its members as a whole should possess comprehensive knowledge, views and experience for the proper performance of their tasks. Members of an audit committee as a whole should have latest knowledge and relevant experience in finance and accounting and/or audit of the listed companies. At least one of the members of payroll committee should have knowledge and experience in the wage setting policy.	NO YES NO	According to the Republic of Lithuania Law on Companies, the Board is elected and its members' qualifications is evaluated by the general meeting of shareholders. The Board itself may not determine its composition. No Remuneration Committee is formed in the Company.
3.5. An individual programme aimed at familiarisation with the duties and organisation and operations of the company should be offered to every new member of a collegiate body. The body should carry out annual checks to determine the areas in which its members should refresh their skills and knowledge.	YES	The newly elected Board Members are granted an opportunity to meet with managers of the Company's structural divisions and to get acquainted with the Company's operations. It should be noted that the Board members are informed about the Company's operations on a regular basis – at the Board meetings and individually as requested by the member.
3.6. In order to ensure proper resolution of any conflicts of interests of members of a collegiate body, the body should contain sufficient number of independent members.	YES	The Articles of Association of the Company does not include a provision to the effect that a certain number of the Board's members must be independent members, however, there is one independent member of the Board out of five. The formation of the Board (and election of its independent members) falls within the scope of competence of the general meeting of shareholders.
3.7. A member of a collegiate body should be considered to be independent only if is not linked with the company, its controlling shareholder or administration of the company/shareholder by any business, kinship or other relations which give or could give rise to a conflict of interest and which could influence the member's views. As it is impossible to list all the cases when a member of a collegiate body may lose independence, in addition, relations and circumstances relate to the determination of independence may differ from company to company, and the best practice of resolution of the problem may form in time, an assessment of independence of the member should be based on the content and not the form of the relations and circumstances. Main criteria on which determination of the member's independence should be based: 1) he may not be executive director or member of the board of the company or an associated company (if the collegiate body elected by the general meeting of shareholders is a supervisory council) and may not have occupied such position during the past	YES	One of the five members of the Board has declared his independence. The Board has stated that this Board Member meets the independence criteria established in this Code.

five years); 2) he may not be employee of the company or an associated company and may not have occupied such position during the past three years except for cases when the member of the collegiate body is not part of top management and was elected to the body as a representative of employees; 3) he must not be receiving or received significant additional remuneration from the company or an associated company except for remuneration received as a member of a collegiate body. Such additional remuneration includes participation in share options or other remuneration systems based on the operating results; this does not include compensation benefits under a pension plan (including deferred compensations) for previous work in the company (on condition that such benefit is not related in any way to subsequent positions); 4) he may not be a controlling shareholder and may not represent such shareholder (control is determined according to Article 1(1) of Council Directive 83/349/EEC); 5) he may nor have or have had in the previous years any significant business relations with the company or an associated company directly or as a partner, shareholder, director or senior manager of an entity having such relations. An entity is considered to be having business relations if it is an important supplier of goods or services (including financial, legal, advisory and consulting services), significant customer or organisations receiving significant payments from the company or the group to which the company belongs; 6) he may not be and m may not have been in the past three years a partner or employee of the current or previous external auditor of the company or an associated company; 7) he may not be executive director or member of the board of another company in which the executive director or member of the company (in case of a supervisory council elected by the general meeting of shareholders) is a consulting director or member of a supervisory council, an may not have other significant relations with the company's executive directors that arise in the process of participation in the activities of other companies or bodies; 8) he may not have occupied the position of a member of a collegiate body longer than 12 years; 9) he may not be a member of the closest family of the executive director or a member of the board (in case of a supervisory council elected by the general meeting of shareholders) or of persons referred to in items 1 to 8 above. Close family includes spouses/partners, children and parents.		
3.8. The content of the notion of independence is determined by the collegiate body itself. The body mat decide that a certain member cannot be considered independent due to particular personal or company-related circumstances, even though he meets all the independence criteria set in this Code.	YES	See Comment on Item 3.7.
3.9. Information on the conclusions drawn by the collegiate body in determining whether a member can be considered independent should be disclosed. Where appointment of a member of a collegiate body is proposed, the company should announce whether the member is considered independent. Where a member of the body does not meet any independence criteria set in this code, the company should announce reasons why it still considers that member independent. In addition, the company should state in every annual report which members of the collegiate body are considered independent.	NO	There has been no practice of publishing conclusions on the assessment of independence of the Board Members of the Company.
3.10. Where one or more of the independence criteria set out in this Code have not meet throughout the year, the company should announce reasons why a member of the collegiate body is considered independent. In order to ensure accuracy of information about independence, the company should demand that independent members would confirm their independence on a regular basis.	NO	There has been no practice of publishing conclusions on the assessment of independence of the Board Members of the Company.
3.11. Independent members of a collegiate body may be remunerated for their work and attendance of meetings of the	YES	The independent member of the Board was remunerated by the

body out of the company's funds. The size of the remuneration should be approved by the general meeting of shareholders.		Company. The size of the remuneration was approved by the general meeting of shareholders held on 30 April, 2012.
Principle IV: Duties and responsibilities of a collegiate body elected by the general meeting of shareholders **The corporate governance system should ensure that the collegiate body elected by the general meeting of shareholders functions properly and effectively and the rights granted to the body should endure effective supervision over the corporate management bodies and protection of the shareholders' interests**		
4.1. The collegiate body elected by the general meeting of shareholders ("the collegiate body") should ensure integrity and transparency if the financial accounting and control system of the company. The collegiate body should constantly make recommendations to the company's management bodies and supervise and control their activities in the area of management of the company.	YES	The Board of the Company submits to the general meeting of shareholders its feedback and proposals for the annual financial statements, the profit allocation project, the Annual Report and the activities of the Head of the Company and performs other functions falling within the scope of competence of the Board.
4.2. Members of the collegiate body should act for the benefit and in the interests of the company and shareholders in good faith, carefully and responsibly, taking account of the employees' interests and public welfare. Independent members of a collegiate body should: a) maintain independence of their analyses, decision adoption and actions under any circumstances; b) do not seek and do not accept unjustified preferences that might compromise their independence; c) clearly express their objections in cases when, in their opinion, decision by the collegiate body may be harmful to the company. Where the collegiate body has adopted decisions with respect to which an independent member has serious doubts, in such a case the member should draw conclusions accordingly. In case of resignation of an independent member he should explain the reasons therefor in a letter to the collegiate body or audit committee and, if necessary, to a relevant external institution.	YES	All members of the Board act in good faith in the interests of the Company, taking the public interests into consideration. It should be noted that according to Article 48 of the Articles of Association of the Company the Board Member has the right to express his/her opinion on any issues on the agenda of the Board meeting and such opinion must be recorded in the minutes of the meeting.
4.3. Each member of a collegiate body should devote sufficient time and efforts to the performance of his duties in a collegiate body. Each member of a collegiate body should undertake to limit his other professional obligations (in particular the duties of a director of another company) so that they do not hinder the performance of his duties as a member of the collegiate body. If a member has attended less than one half of the meetings of the collegiate body during the company's financial year, the shareholders should be notified thereof.	YES	Members of the Board take an active part in the meetings of the collegiate body and devote sufficient time for the performance of their functions as the Board Members. The participants in the meetings are recorded in the minutes.
4.4. Where decisions by the collegiate body may have different effects on different shareholders, the collegiate body must treat all the shareholders in good faith and without bias. It should ensure that the shareholders are duly informed about the company's affairs, strategies, risk management and resolution of conflicts of interest. The company must have clearly defined the role of the members of the collegiate body in the relations with shareholders and in their obligations to the shareholders.	YES	The shareholders are informed about the Company's strategies, risk management and resolution of conflicts of interests according to the procedure established by the law. The role of the Board's members in the communication with and obligations to the shareholders is determined according to provisions of the Law on Companies.
4.5. It is recommended that transactions (except low value transactions or transactions concluded in the normal course of business of the company) between the company and its shareholders or members of supervisory or managerial bodies or other natural or legal persons that may have influence over the company's management should be certified by a collegiate body. Decision on the approval of such transactions should be deemed to be adopted only if the majority of the independent members of the collegiate body vote for it.	YES	Management bodies of the Company conclude and approve transactions according to provisions of the legal acts and Articles of Association of the Company. The Articles of Association of the Company establish that the general meeting of shareholders adopts decisions on agreements on the conditions of work for the Board concluded with the Board Members and the Chairman of the Board, standard terms and

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		conditions of such agreements, and appointed of a person authorised to sign such agreements.
4.6. The collegiate body should be independent in adopting decisions that are significant for the company's activities and strategies. In addition, the collegiate body should be independent from management bodies of the company. Work and decisions by the collegiate body should not be influenced by the persons that elected it. The company should ensure that the collegiate body and its committees are provided with sufficient resources (including financial) necessary for the performance of their duties including the right to obtain – in particular from the employees of the company – all the requisite information and the right to approach external law, accounting or other professionals for advice on the matters falling within the scope of competence of the collegiate body and its committees. The remuneration committee, while using the consultants'/experts' services in order to get information about market standards on setting of remuneration rates, must ensure that the same consultant would not provide consulting on personnel division or executive director or members of management bodies of a related company at the same time.	YES YES NO	The Board of the Company acts independently in adopting decisions of importance for the Company and its strategies. The Company furnishes the Board with resources necessary for its work (technical servicing of the Board's meetings, provision of the necessary information). No Remuneration Committee has been formed by the Company.
4.7. Work of the collegiate body should be organised in such a way that independent members of the collegiate body would have significant influence in the most important areas with a high potential of conflicts of interest. Such areas include issues related to the appointment of directors, setting of remuneration to directors, and audit control over the company. Therefore, in the case where these issues fall within the scope of competence of a collegiate body, it is recommended that the collegiate body forms committees on appointment, remuneration and audit. The company should ensure that functions assigned to the appointments, remuneration and audit committees are performed, however, they may be combined and less than three committees may be formed. In such a case the company must provide a detailed explanation why an alternative approach was selected and how it complies with the objectives of the three individual committees. Where the collegiate body has a small number of members, the functions of the three committees may be performed by the collegiate body itself, provided that it meets the composition requirements set for the committees and the requisite information on this issue is disclosed. In such a case the provisions of this Code related to the said committees of the collegiate body (in particular, to their role, activities and transparency) should apply to the collegiate body as whole, where applicable.	NO YES/ NO	Independence of the Board Members is not assessed, see Comment on Item 3.6. The Company has the Audit Committee. No Remuneration or Appointment Committees have been formed. In the opinion of the Company, the work of the Board is effective and well organised and the Board can properly perform the functions of the Remuneration and Appointment Committees.
4.8. The main purpose of the committees is to increase efficiency of work of the collegiate body to ensure that decisions are adopted upon proper consideration and to assist in the organisation of work so that conflicts of interest do not influence decisions adopted by the collegiate body. The committees should act in an independent manner and adhere to their principles and provide to the collegiate body recommendations on decision-adoption by the collegiate body, however, the final decision shall be adopted by the collegiate body itself. The recommendation on the formation of committees is not aimed at narrowing the scope of competence of the collegiate body or delegate it to the committees. The collegiate body remains fully responsible for the decisions adopted within the scope of its competence.	YES/ NO	The Company has the Audit Committee. No Remuneration or Appointment Committees have been formed.
4.9. Committees formed by the collegiate body should normally consist of at least three members. In companies whose collegiate body has a small number of members a committee may be formed of two persons by way of exception. The majority of the members of any committees should consist of independent members of the collegiate body. In	YES NO	The Audit Committee consists of three members. There is one independent member in the Audit Committee.

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case if no supervisory council is formed in the company, the salaries committee and the audit committee should be formed exclusively of consulting directors. In deciding on the chairman and members of a committee, account should be taken of the fact that membership of committees should be renewed and excessive trust should not be placed on any person.		
4.10. Authorisations of any committee should be established by the collegiate body. Committees should perform their duties within the scope of their authorisations and inform the collegiate body about its activities and results on a regular basis. Authorisations of each committee, with the roles, rights and responsibilities defined, should be published at least once in a year (as part of the information that the company publishes on its management structure and practices every year). The annual report of the company should also include notices of published by the committees stating information about their composition, number of meetings and attendance by members during the past year as well as about main lines of activities. The audit committee should certify that is it satisfied with the independence of the audit process and briefly describe actions taken to arrive to this conclusion.	YES	Authorisations of the Audit Committee were set by the general meeting of shareholders of the Company. See Comment on Item 3.6.
4.11. In order to ensure independence and objectivity of committees, members of the collegiate body that are not members of the committees should normally have the right to attend the meetings of the committee only subject to invitation by the committees, The committee may invite or demand that certain employees or experts attend the meetings. Chairman of each committee should be enabled to maintain direct relations with the shareholders. Cases when this should be done should be stated in the committee's regulations.	YES	
4.12. Appointments Committee. 4.12.1. The main functions of the Appointments Committee should be as follows: 1) select candidates to vacant positions of members of management bodies and recommend them to the collegiate body for consideration. The committee should assess the balance of skills, knowledge and experience in a management body, prepare a description of functions and abilities required for a specific position, and assess the time necessary for the discharge of obligations. The committee may also evaluate the candidates to members of the collegiate body proposed by the shareholders; 2) on a regular basis, evaluate the structure, size, composition and activities of supervisory and management bodies, make recommendations for changes to the collegiate body; 3) on a regular basis, evaluate skills, knowledge and experience of individual director and notify the collegiate body; 4) devote sufficient attention to the continuity planning; 5) review management bodies' policies on election and appointment of top management. 4.12.2. The appointments committee should consider proposals received from other persons including administration and shareholders. Where issues related to executive directors or members of the board (where the collegiate body elected by the general meeting of shareholders is the supervisory council) and top management, the committee should consult the CEO, entitling him to make proposals to the committee.	NO	No Appointments Committee has been formed in the Company.
4.13. Remuneration Committee 4.13.1. The main functions of the Remuneration Committee should be as follows: 1) make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with	NO	No Remuneration Committee has been formed in the Company.

recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) review, on a periodic basis, the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. The main functions of the Audit Committee should be as follows: 1) monitor the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) at least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department,	YES	The Company has formed the Audit Committee.

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

organisation of work, and ability to act as a team of/by the collegiate body, an assessment of competence and efficiency of each member and committee of the body, and an assessment whether the body has achieved its objectives. The collegiate body should publish, at least once in a year (as part of information published annually by the company on its management structures and practices), relevant information on its internal organisation and operating procedures, specifying any material changes resulting from the self-assessment.		bodies and has no practice of publishing the relevant information.
Principle V: Working procedures of collegiate bodies of the company **The working procedures of the collegiate supervisory and managerial bodies should ensure effective operation and decision-adoption by these bodies and encourage active cooperation between corporate bodies**		
5.1. Collegiate supervisory and managerial bodies of the company (for the purposes of this Principle, *collegiate bodies* include both supervisory and managerial bodies) are headed by chairmen. A chairman is responsible for the proper convening of meetings of a collegiate body. The chairman should ensure proper notification of all members of the body including the agenda of the meeting. He should also ensure proper chairing of the meetings, order at the meetings and working atmosphere during the meeting.	YES	
5.2. It is recommended that meetings of collegiate bodies of the company are convened at relevant intervals under an approved schedule. A company decides itself on the periodicity of the meetings, however, it is recommended that the periodicity should ensure continues resolution of key issues of corporate management. Meetings of the supervisory council should be convened at least quarterly and meetings of the board – at least monthly.	YES	Meetings of the Board are held at least once in a calendar quarter as stated in Article 45 of the Articles of Association of the Company. The Board draws up a schedule of the Board meetings at the beginning of the calendar year in accordance with the Regulations of the Board.
5.3. Members of a collegiate body should be notified of a meeting in advance so that they have enough time to prepare for the consideration of issues at the meeting and the discussions are fruitful and followed by adoption of proper decisions. A notice of the meeting to the members of the collegiate body should be accompanied by any requisite materials related to the agenda. The agenda should not be amended or supplemented during the meeting except for cases when all the members of the body are present at the meeting or where issues material to the company must be urgently resolved.	YES	According to the Regulations of the Board, the Board Members and the invited persons are given a 5 (five) days' notice of the meeting (unless a shorter term is not objected to), and are furnished with the information related to the agenda.
5.4. In order to coordinate work of collegiate bodies of the company and ensure an effective decision-adoption process, chairman of the collegiate supervisory and managerial bodies should agree on dates of meetings and agendas and cooperate closely in resolving other issues related to the company's management. Meetings of the supervisory council should be open to members of the board, in particular where issues related to recalling or liability of the latter or setting of remuneration for the latter are resolved.	N/A	Only the Board has been formed by the Company which convenes its meetings according to the approved schedule of meetings and the working plan.
Principle VI: Unbiased treatment of shareholders and shareholders' rights **The corporate governance system should ensure unbiased treatment of all shareholders including minority shareholders and foreign shareholders. The corporate management governance should protect the shareholders' rights**		
6.1. It is recommended that the company's capital consists only of those shares that grant equal right in terms of voting, ownership, dividend etc. to their holders.	YES	The authorised capital of the Company consists of ordinary registered shares of LTL 1 par value. The shares grant equal property and non-property rights to their holders.
6.2. It is recommended that investors are afforded the opportunity of early (i. e. prior to purchase of shares) familiarisation with the rights attached to newly issued or existing shares.	YES	The rights attached to the shares are specified in the Articles of Association of the Company, which are published in the Company's

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		website.
6.3. Transactions that are material to the company and its shareholders such as transfer of the company's assets, investments, mortgage or other encumbrance should be approved by the general meeting of shareholders in advance. All shareholders should be afforded equal opportunities for familiarisation with and participation in the adoption of decisions important for the company including approval of the said transactions.	YES	Clauses 17, 30 and 31 of the Articles of Association establish the criteria for material transactions requiring approval of the general meeting of shareholders.
6.4. Procedures for the convening and holding of general meetings of shareholders should provide equal opportunities for the shareholders to take part in the meeting and should not infringe the shareholders' rights and interests. The selected place, date and time of the meeting should not prevent the shareholders from active participation in the meeting.	YES	The Company convenes general meetings of shareholders and implements other procedures related to such meetings according to the provisions of the Republic of Lithuania Law on Companies.
6.5. In order to ensure the foreign shareholders' right to get conversant with the information, it is recommended that the documents prepared for the general meeting of shareholders, where possible, are published in advance in a publicly accessible website of the company in Lithuanian and English and/or other languages. The signed minutes of the meeting and/or decisions should also be published in a publicly accessible website of the company in Lithuanian and English and/or other languages. A document may be published on the company's website in a reduced scope if full publication could damage the company or trade secrets of the company would be disclosed..	YES	Pursuant to the Republic of Lithuania Law on Companies, the Company publishes draft decisions of the general meeting of shareholders, in Lithuanian and English, in its website. Decisions adopted by the general meeting of shareholders are published in the Company's website in Lithuanian and English. This information is also published, pursuant to the Articles of Association of the Company and other legal acts, in the electronic publication of NASDAQ OMX Vilnius and the Centre of Registers.
6.6. The shareholders should be provided the opportunity to vote at the general meeting by attending or not attending the meeting in person. There should be no obstacles for the shareholders to vote in advance by completing the general ballot.	YES	The shareholders of the Company may exercise the right of participation in the general meeting of shareholders either in person or through a proxy, provided that the latter holds a properly executed power of attorney or has signed an agreement on the transfer of the voting right. The Company enables the shareholders to vote by completing a ballot as provided for by the Law on Companies.
6.7. In order to increase the shareholders' opportunities for participation in the general meetings, the companies should seek to more widely apply modern technologies and to enable the shareholders to attend and vote at the general meetings by means of electronic communications. In such cases security of the information transmission and the possibility of identification of the participants and voters must be ensured. Furthermore, companies should enable shareholders, in particular those residing abroad, to observe the general meetings by means of modern technologies.	NO	The Company has no practice of voting by means of electronic communications.
Principle VII: Avoiding and disclosing conflicts of interest **The corporate governance system should encourage members of the bodies to avoid conflicts of interests and ensure a transparent and effective mechanism of disclosing conflicts of interests of members of the bodies**		
7.1. A member of a managerial or supervisory body of the company should avoid a situation where his personal interests conflict or may conflict with the company's interests. If such situation arises, the member should notify, within a reasonable time limit, other members of the same body or the body of the company that has elected him or the shareholders of the situation of conflict of interests, specifying the nature and, where possible,	YES	

value of the interests.		
7.2. A member of a managerial or supervisory body of the company may not mix the corporate assets the use of which has not been specifically considered with him with his personal assets or use the asset or the information that he receives as a member of a collegiate body for personal or third-party benefit unless the general meeting of shareholders or another body of the company authorised by the meeting gives its consent.	YES	
7.3. A member of a managerial or supervisory body of the company may conclude a transaction with the company having formed the relevant body. The shareholder must immediately notify the transaction (except for low value transactions or transactions concluded in the normal course of business of the company and on standard terms and conditions) to other members of the same body or the body that has elected him or the shareholders; the notice may be in writing or oral, with an entry in the minutes of the meeting. Recommendation 4.5 also applies to the transactions referred to above.	YES	
7.4. A member of a managerial or supervisory body of the company should refrain from voting when decisions on transactions or other matters with which he is connected by personal or business interests are being adopted.	YES	According to Article 35(6) of the Republic of Lithuania Law on Companies, a member of the Board is not entitled to vote if a matter related to his/her work in the Board or to his/her responsibility is being resolved. In addition, according to legal acts, members of the Board must avoid situations when their personal interests contradict or can contradict the interests of the Company.
Principle VIII: Corporate remuneration policy **The remuneration policy and the procedure for approving, reviewing and publishing of remuneration for directors in place in the company should prevent potential conflicts of interest and abuse in setting remuneration for directors and should ensure publicity and transparency of the corporate remuneration policy and directors' remuneration**		
8.1. The company should publish a report on its remuneration policy ("the remuneration report") which should be clear and understandable. The remuneration report should be published in the company's website and not only as part of the annual report.	NO	The Company has no practice of preparing a report on the remuneration policy and the approval, revision and publishing of salaries paid to the Company's directors. No such requirement is contained in the legal acts. General information on the Company's remuneration policy and average rates of pay for employee groups are published in the Annual Report of the Company. According to Article 25(5) of the Republic of Lithuania Law on Energy, the Company publishes the rates of remuneration and other payments to members of management bodies for the performance of their functions.
8.2. The remuneration report should be focussed on the directors' remuneration policy in next year and where applicable in subsequent financial years. It should also contain an overview of the implementation of the remuneration policy in previous financial years.	NO	The Annual Report does not contain information on the policy of remuneration to the Company's directors for next year and subsequent years. The Annual Report contains information on amounts calculated for the members of the Company's supervisory and management bodies (salaries, other payments,

		tantiemes, other distributions from profit).
8.3. The remuneration report should contain at least this information: 1) relationship between the variable and fixed components of the directors remuneration and explanation thereof; 2) sufficient information on criteria for the evaluation of performance results on which the entitlement to share options, to shares or to variable components of remuneration is based; 3) explanation of why the selected criteria are beneficial for long-term interests of the company; 4) explanation of the methods applied in determining whether the performance evaluation criteria are met; 5) sufficiently detailed information on periods of deferring the payment of the variable component of remuneration; 6) sufficient information on the link between remuneration and performance; 7) main criteria underlying the annual bonus system and other non-cash benefits; 8) sufficiently detailed information on the severance pay policy; 9) sufficiently detailed information on the period of granting of share-based payment as stated in item 8.15; 10) sufficiently detailed information on retaining shares upon granting of rights under item 8.15; 11) sufficiently detailed information on composition of similar groups of companies whose remuneration policies were analysed in order to formulate the remuneration policy for an associated company; 12) description of main features of an additional pension scheme or early retirement scheme intended for directors; 13) the remuneration report should not contain information that ought not to be published for commercial considerations.	NO	The Annual Report contains information on amounts calculated for the members of the Company's management bodies (salaries, other payments, tantiemes, other distributions from profit), information about assets transferred and guarantees provided to members of the management bodies and other information about remuneration to such members. Please see Comment on Item 8.1.
8.4. The remuneration report should also summarise and explain the company's policy for agreements concluded with executive directors and members of management bodies. This should include, inter alia, information on the terms of agreements with executive directors and members of management bodies and periods of notice of resignation as well as detailed information on severance pay and other benefits related to the early termination of agreements with executive directors and members of management bodies.	NO	The Company has no practice of publishing such information.
8.5. The full amounts of remuneration and other benefits received by individual directors in the relevant financial year should be detailed in the remuneration report. This document should contain at least information referred to in items 8.5.1–8.5.4 for each person that had occupied the position of a director in the company in any period of the financial year. 8.5.1. The following information related to remuneration and/or other service income should be provided: 1) total amount of remuneration paid or payable to the director for the services provided in the past financial year including, where applicable, participation fees set in the general meeting of shareholders; 2) remuneration and benefits received from any company of the same group; 3) remuneration paid as allocation from profit and/or bonuses and reasons for granting of such bonuses and/or allocations from profit; 4) if permitted by the laws, each type of material extra pay paid to directors for special services not included in normal functions of directors; 5) compensation payable or paid to each executive director or member of management bodies who has resigned in the previous financial year; 6) total value of the benefit which is treated as remuneration and which is given in a form other than cash, if such benefit is not covered by items 1 to 5. 8.5.2. The following information related to shares and/or rights to take part in share options and/or any other rights to take part in	NO	The Company does not publish such information.

the share-based incentive systems should be provided: 1) number of share options offered or shares allocated previous financial year and the terms and conditions thereof; 2) number of share options exercised during previous financial year specifying the number and price of the shares in each option, or the value of participation in the share-based employee incentive system as of the end of previous year; 3) number of share options unrealised as of the end of financial year, their realisation price, realisation data and main terms of exercise of the rights; 4) any changes in the terms of share options in the next financial year. 8.5.3. The following information related to the additional pension schemes should be provided: 1) in case defined benefit schemes - changes in benefits accumulated for the directors in the relevant financial year; 2) in case of defined contribution schemes - detailed information on contributions paid or payable for the director by the company in the relevant financial year; 8.5.4. Amounts paid by the company or its subsidiary or any company included in the company's consolidated financial statements as a loan, prepayment or guarantee to any person who has occupied the position of a director in any period of the relevant financial year, including outstanding amounts and interest rates.		
8.6. Where the remuneration policy provides for variable components of remuneration, the company should set the limits of the variable components. The fixed component should be sufficient to allow the company not to pay the variable component in case if the performance criteria are not met.	NO	The Company does not publish such information.
8.7. The payment of the variable component should depend on pre-set and measurable performance evaluation criteria.	NO	The Company does not publish such information.
8.8. Where the variable component of the remuneration is paid, payment of the larger part of this component should be deferred for a reasonable period. The size of the deferred part of the variable component should be set based on the relative value of the variable part as compared with the fixed part of the remuneration.	NO	The Company does not publish such information.
8.9. Agreements with executive directors or members of management bodies should include a provision enabling the company to recover the variable part that has been paid based on the data which later appeared to be untrue.	NO	The Company does not publish such information.
8.10. Severance pay should not exceed a set amount or a set number of annual pay amounts and generally should not be higher than the sum of the fixed remuneration component for two years or an equivalent.	YES	
8.11. Severance pay should not be paid if employment contract is terminated on the grounds of poor performance.	YES	
8.12. Furthermore, information on the preparatory and decision-adoption processes whereby directors' remuneration policy is formulated should be disclosed. The information should include data, if applicable, on the powers and composition of the remuneration committee, names of external consultants whose services were used in the formulation of the remuneration policy, and the role of the annual general meeting of shareholders.	NO	The Company does not publish such information.
8.13. In cases where remuneration is share-based, the right to shares should not be granted during at least three years after allocation thereof.	YES	N/A
8.14. Share options or other rights to acquire shares or to receive remuneration based on share price fluctuations should not be exercised earlier than on expiry of three years after allocation. The granting of the right to the shares and the right to exercise share options or other rights to acquire shares or receive	YES	N/A

remuneration based on share price fluctuations should depend on pre-set and measurable performance evaluation criteria.		
8.15. Upon allocation of the rights the directors should retain a certain number of shares until the end of the term of office depending on the need to cover any expenses related to the share acquisition. The number of shares to be acquired should be pre-set, e. g. the value of annual remuneration (variable plus fixed) multiplied by two.	YES	N/A
8.16. Remuneration to consulting directors or members of the supervisory council should not include share options.	YES	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to take part in the annual meetings of shareholders and vote on the issue of setting remuneration for the directors.	YES	
8.18. Without diminishing the role of bodies responsible for the setting of remuneration, remuneration policy and any material change therein should be included in the agenda of the annual meeting of shareholders. The remuneration report should be submitted to the general meeting of shareholders for voting. The voting results may have mandatory or advisory effect..	YES	
8.19. Schemes under which remuneration to directors is paid in shares, share options or other rights to acquire shares or receive remuneration based on share price fluctuations should be approved in advance by a decision adopted by the general meeting of shareholders. The consent should be given to the scheme itself and shareholders should not decide on the benefit received by individual directors under that scheme. Any material amendments to the scheme proposed prior to the scheme introduction date should also be approved by the decision of a general meeting of shareholders. In such cases the shareholders should be informed in detail about the proposed amendments and the potential effects thereof.	NO	Such schemes are not applied and the Company does not publish such information.
8.20. Consent of the general meeting of shareholders should be obtained for the following matters: 1) remuneration to directors under share-based schemes including share options; 2) setting of the maximum number of shares and main terms and conditions of share allocation; 3) term within which share options must be exercised; 4) terms and conditions of changing the price for the exercise of each further share option; 5) any other long-term incentive schemes for directors that are not offered to any other employees of the company on similar terms. The general meeting of shareholders should also set the final time limit for the allocation of the above-said compensations to directors by the body responsible for director's' remuneration.	NO	Such schemes are not applied and the Company does not publish such information.
8.21. If permitted by the national law or the Articles of Association of the company, the shareholders approval should also be required for each model of option permitting subscription for the shares at a price lower than market price valid as of the price-setting day or at an average market price valid several days prior to the setting of the exercise price.	NO	Such schemes are not applied and the Company does not publish such information.
8.22. Items 8.19 and 8.20 should not be applied to schemes which are offered, on similar terms and conditions, to employees of the company or of any subsidiary entitled to participate in the scheme and which were approved by the general meeting of shareholders.	NO	Such schemes are not applied and the Company does not publish such information.
8.23. Prior to the date of the general meeting of shareholders at which the decision referred to in Item 8.19 is to be considered, the shareholders should be afforded the opportunity to familiarise themselves with the draft decision and the related notice (the documents should be published on the company's website). The	NO	Such schemes are not applied and the Company does not publish such information.

notice should contain the full text describing the share-based scheme or a description of the main terms and conditions thereof as well as names of participants in the scheme. The notice should also specify the relationship between the schemes and the overall directors' remuneration policy. The draft decision should contain a clear reference to the scheme itself or a summary of the main terms and conditions. The shareholders should also be furnished with information on the way the company intends to secure the availability of the shares necessary for the discharge of obligations under the incentive scheme: it should be clearly indicated whether the company intends to buy the shares in the market, or keep them as a reserve, or issue new shares. In addition, an overview of the scheme costs to be incurred by the company due to the application of the scheme should be provided. The information under this item should be published in the company's website.		
Principle IX: Role of stakeholders in corporate governance **The corporate governance system should recognise the statutory rights of stakeholders and promote active collaboration between them and the company in creating the company's welfare, jobs and financial stability. For the purposes of this principle, *stakeholders* include investors, employees, creditors, suppliers, customers, local community and other persons having interests in a specific company**		
9.1. The corporate governance system should ensure respect for the statutory rights of stakeholders.	YES	
9.2. The corporate governance system should enable stakeholders to participate in the governance according to procedures established by the law. Examples of stakeholders' involvement: participation of employees in adopting decisions significant for the company, consulting with the employees on matters of the company's management and other important matters, employees' participation in the share capital, involvement of creditors in the company's management in case of insolvency of the company etc.	YES	The Company complies with this recommendation. For instance, consultations, negotiations etc. on the optimisation processes implemented in the Company are held with representatives of the Company's employees. Under the Collective Agreement concluded with the employees' representatives, the Company informs the trade union representatives of projected changes, financial position of the Company etc. Stakeholders can take part in the corporate governance to the extent provided by the laws.
9.3. Where stakeholders take part in the corporate governance process, they should be enabled to access requisite information.	YES	
Principle X: Disclosure of information **The corporate governance system must ensure that information on all material issues relevant to the company, including financial position, operations and management, is disclosed timely and accurately**		
10.1. The company should disclose information on: 1) operations and financial results of the company; 2) objectives of the company; 3) persons owning or controlling a block of shares of the company; 4) members of supervisory and management bodies of the company and the head of the company as well as their remuneration; 5) predictable key risks; 6) the company's transactions with related parties as well as transactions concluded in other way than the usual course of business; 7) main issues related to employees and other stakeholders; 8) management structure and strategies of the company. This list is a minimum list and companies are encouraged not to confine themselves to the disclosure of this information.	YES, except (4) and (7)	
10.2. In disclosing the information referred to in (1) of Item 10.1, it is recommended that the controlling company discloses information on the consolidated results of the entire group of companies.	YES	
10.3. In disclosing the information referred to in (4) of Item 10.1,	NO	The Company does not publish

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it is recommended to provide information on professional experience and qualifications of members of the company's supervisory and managerial bodies and the head of the company as well as potential conflicts of interests that could influence their decisions. It is also recommended to disclose remuneration and other income received by the said persons as detailed under Principle VIII.		such information.
10.4. In disclosing the information referred to in (7) of Item 10.1, it is recommended that information on relations between the company and its stakeholders such as employees, creditors, suppliers, local community etc. is disclosed including the company's human resources policy, programmes on employees' participation in share capital etc.	NO	The Company does not publish such information.
10.5. The information should be disclosed in such a way that no shareholder or investor is discriminated against with respect to the method and scope of information received. The information should be disclosed to all at the same time. It is recommended that notices of material events are published prior to or after a trading session at NASDAQ OMX Vilnius so that all shareholders and investors of the company have equal opportunities to familiarise themselves with the information and to adopt relevant investment decisions.	YES	The Company publishes information through the information system of the Vilnius Securities Exchange in Lithuanian and English simultaneously. The Company publishes information prior to, during ir after the trading session at Vilnius Securities Exchange and presents it simultaneously to all the markets in which the Company's securities are traded. The Company does not disclose information that may influence the price of its securities in any comments, interviews etc. until such information is published in the Vilnius Securities Exchange IS
10.6. The methods of disclosing information should ensure unbiased, timely and inexpensive access to information to the information users including free access in cases established by the law. It is recommended that information technologies are used widely for the dissemination of information, e. g. publishing of information on the company's website. Information should be published on the company's website both in Lithuanian and English as well as in other languages if possible.	YES	Apart from the method of disclosure stated in p. 10.5, the Company uses different media (electronic bulletin for public notices issued by the Centre of Registers, news agencies, the Company's website) in order to ensure that the information reaches the largest circle of stakeholders possible. Information in the Company's website is published in Lithuanian and English.
10.7. It is recommended that the annual report, the financial statements and other period reports of the company are published on its website, together with the company's notices of material events and changes in the prices of the company's shares in securities exchange.	YES	
Principle XI: Selection of the Company's auditor **The mechanism for the selection of an auditor for the company should ensure independence of the audit opinion**		
11.1. In order to obtain an objective opinion of the interim and annual financial statements and the annual report of the company, they should be audited by an independent auditor.	YES	
11.2. It is recommended that the supervisory council proposes an auditor to the general meeting of shareholders, and if no supervisory council is formed, then the proposal should be made by the board.	YES	Upon selection of the auditor, the Board proposes its candidacy to the general meeting of shareholders.
11.3. If the audit firm receives payment from the company for services other than audit services, the company should disclose this to its shareholders. This information should also be disclosed to the supervisory council, and if no supervisory council is formed – to the board for the purposes of selecting the auditor that it intends to propose to the general meeting of shareholders.	YES	