Lietuvos energija

2013-04-04 No. SD973

CERTIFICATION STATEMENT

Referring to the provisions of the Article 22 of the Law on Securities of the Republic of Lithuania, we, the undersigned Dalius Misiūnas, Chief Executive Officer, Artūras Jočius, Director of Finance and Legal Department, and Giedruolė Guobienė, Chief Financier, hereby confirm that, to the best of our knowledge, Lietuvos Energija, AB and consolidated financial statements 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 Lietuvos Energija, AB and its consolidated group assets, liabilities, financial position, period 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 Lietuvos Energija, AB and consolidated position of group, together with a description of the principal risks and uncertainties that it faces.

Chief Executive Officer	Dalius Misiūnas
Director of Finance and Legal Department	Artūras Jočius
Chief Financier	Giedruolė Guobienė

Lietuvos energija, AB
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Banko kodas 73000
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V. Kudirkos g. 18, LT-03105 Vilnius

LIETUVOS ENERGIJA, AB

CONSOLIDATED ANNUAL REPORT, CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS AND INDEPENDENT AUDIT OPINION

FOR THE YEAR ENDED ON 31 DECEMBER 2012

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The financial statements were approved by the CEO, Director of Finance and Legal Department, and the Chief Financier on 29 March 2013.

Dalius Misiūnas CEO	**Artūras Jočius** Director, Finance and Legal Department	**Giedruolė Guobienė** Chief Financier

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

Independent Auditor's Report

To the shareholders of Lietuvos Energija, AB

Report on the financial statements

We have audited the accompanying stand-alone and consolidated financial statements of Lietuvos Energija, AB ("the Company") and its subsidiaries ("the Group") set out on pages 55 to 125, 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.

Basis for qualified opinion

Since the first-time adoption of International Financial Reporting Standards in 2004, the Company and the Group have incorrectly applied depreciation rates for property, plant and equipment of the Reserve Power Plant and these misstatements have not been corrected by 31 December 2012. We were unable to obtain sufficient and appropriate evidence about the amount of additional depreciation that should have been recognised. In our opinion, the accumulated depreciation was materially understated, whereas the carrying amount of property, plant and equipment was materially overstated as of 31 December 2012 and 2011. We were unable to assess the amount, by which the carrying amounts of property, plant and equipment of the Company's and the Group's Reserve Power Plant totalling LTL 1,289m and LTL 1,331m as of 31 December 2012 and 31 December 2011, respectively, should be reduced.

As of 31 December 2011 and 2010, the Company and the Group did not estimate the recoverable amount of the Reserve Power Plant with the carrying amounts of LTL 2,494m and LTL 2,270m, respectively, although impairment indications existed as of these dates. As explained in Note 3 to the financial statements, as of 31 December 2012 the Company and the Group estimated the recoverable amount of the Reserve Power Plant, which exceeded the carrying amount equival to LTL 2,612m as of 31 December 2012. The recoverable amount of these assets increased in 2012 as a result of the legal acts introduced in 2012, which are described in Note 3. In the absence of the impairment test as of 31 December 2011 and 2010, we were unable to assess the amounts of impairment loss that should have been recognised during the financial year ended 31 December 2011 or periods before 1 January 2011, and the amount of impairment loss that should have been reversed in the financial year ended 31 December 2012.

Qualified opinion

In our opinion, except for the effect of the matters referred to in paragraph *Basis for qualified opinion,* 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 5 to 53 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

Jurgita Krikščiūnienė
Auditor's Certificate No.000495

Vilnius, Republic of Lithuania
29 March 2013

CONSOLIDATED ANNUAL REPORT
OF LIETUVOS ENERGIJA, AB AND ITS SUBSIDIARIES
FOR THE FINANCIAL YEAR 2012

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I. GENERAL INFORMATION

1. INFORMATION ABOUT THE ISSUER AND THE GROUP OF COMPANIES

Reporting period covered by the Consolidated Annual Report

The Consolidated Annual Report provides information to shareholders, creditors and stakeholders of Lietuvos energija, AB about the activities of the company and the group of companies in financial year 2012.

Legal basis for the preparation of the Annual Report

The Consolidated Annual Report of Lietuvos energija, AB (hereinafter referred to as Lietuvos energija, AB or the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") has been prepared by the Administration of the Company in accordance with Article 25 of Chapter V of the Republic of Lithuania Law on Financial Statements of Companies, Article 9 of Chapter III of the Republic of Lithuania Law on Consolidated Financial Statements of Companies, and Resolution of the Bank of Lithuania No 03-48 of 28 February 2013 "Concerning approval of the Rules for Preparation and Submission of Periodic and Additional Information". The Annual Report was approved by the Board.

Persons responsible for the information provided in the Consolidated Annual Report

Title	Name	Telephone
CEO, Lietuvos energija, AB	Dalius Misiūnas	+370 528 33205
Director of Finance and Legal Department of Lietuvos energija, AB	Artūras Jočius	+370 528 33264

Issuer and its contact details

Name	Lietuvos energija, AB
Legal form	Public company; private legal person with limited civil liability
Registration date and place	20 July 2011, Register of Legal Persons of the Republic of Lithuania
Company code	302648707
Registered office address	Elektrinės str. 21, 26108 Elektrėnai, Lithuania
Telephone	+370 528 33207
Fax	+370 528 33272
Email	info@le.lt
Website	www.le.lt

Core activities of the Issuer

Core activities of Lietuvos energija, AB include the generation, supply, import and export of electricity as well as electricity trade.

Information about branches and representative offices of the Company

The Company has no branches or representative offices.

Information about the Group

As of 1 January 2012 and 31 December 2012, the following subsidiaries were under direct control of the Company: Kauno energetikos remontas UAB, Energijos tiekimas UAB, and Technologijų ir inovacijų centras UAB. Kauno energetikos remontas UAB and Energijos tiekimas UAB are wholly-owned subsidiaries, whereas in Technologijų ir inovacijų centras UAB the Company holds 54.04% of the shares.

Apart from the said subsidiaries, the Company participates in the following associated companies: Geoterma UAB (23.44% of shares), Nordic Energy Link AS (25% of shares), and NT valdos UAB (41.74% of shares). Indirectly, through Kauno energetikos remontas UAB, the Company holds 100% of the shares on Gotlitas UAB and has significant influence in Enmašas UAB (33.33% of the shares). Furthermore, through Technologijų ir inovacijų centras UAB, the Company holds the majority of shares in VšĮ Respublikinis energetikų mokymo centras (National Centre for Training of Energy Specialists).

Contact details of companies forming the Group

Name	**Lietuvos energija, AB**	**Kauno energetikos remontas UAB**	**Energijos tiekimas UAB**	**Technologijų ir inovacijų centras UAB**
Legal form	Public company	Private company	Private company	Private company
Registration date and place	20 July 2011, Register of Legal Persons of the Republic of Lithuania	27 April 2000, Register of Legal Persons of the Republic of Lithuania	21 October 2009, Register of Legal Persons of the Republic of Lithuania	21 October 2009, Register of Legal Persons of the Republic of Lithuania
Company code	302648707	135617795	302449388	302527488
Registered office address	Elektrinės str. 21, 26108 Elektrėnai, Lithuania	Chemijos str. 17, 51331 Kaunas, Lithuania	P. Lukšio str. 1, 08221 Vilnius, Lithuania (registered at Jeruzalės str. 21, 08420 Vilnius)	A. Juozapavičiaus str. 13, 09311 Vilnius, Lithuania
Telephone	+370 528 33207	+370 37 456702	+370 5 2782770	+370 5 2782272
Fax	+370 528 33272	+370 37 452948	+370 5 2782750	+370 5 2782299
Email	info@le.lt	ker@ker.lt	info@etiekimas.lt	info@etic.lt
Website	www.le.lt	www.ker.lt	www.etiekimas.lt	www.etic.lt

Type of activities of companies forming the Group

Company	**Shareholding**	**Core activities**
Lietuvos energija, AB	-	Generation and supply, import and export of electricity, and electricity trade
Kauno energetikos remontas UAB	100%	Repairs of energy installations, manufacture of metal structures
Energijos tiekimas UAB	100%	Independent power supply
Technologijų ir inovacijų centras UAB	54.04%	Services related to innovations, knowledge and competence management; IT and application systems' management services

2. OVERVIEW OF ACTIVITIES

Completed construction of a combined-cycle unit
After closure of the Ignalina Power Plant in 2010, Lietuvos energija, AB set a strategic objective of becoming Lithuania's largest power generating company. Seeking to attain this objective, a new 455 MW combined-cycle gas turbine unit (CCGT unit) was constructed. The official opening of the unit took place on 23 October 2012. Efficiency of the unit is over 58% and it is capable of generating electricity to meet approx. 20 to 25% of the national demand. The efficiency of the unit is obvious as the natural gas consumption has been reduced by as much as 30%. Construction of the CCGT unit cost LTL 1.3 billion. The project was financed by the Ignalina International Decommissioning Support Fund, the European Bank for Reconstruction and Development, and commercial banks. The Company contributed its own funds as well. A contract for the CCGT unit construction was concluded with Iberdrola Ingenieria y Construccion, S.A.U., a Spanish concern, at the end of April 2009, and the construction process lasted over three years.

Structural changes implemented
In order to optimise the operations of the Company's production unit, a new division of the Company was established on 1 April 2012: the Hydro Electric Power Plants Department including the former Department of Kruonis Pumped Storage Hydroelectric Plant ("Kruonis PSHP") and Department of Kaunas Hydroelectric Power Plant ("Kaunas HPP"). In November of 2012, the Board of Lietuvos energija, AB adopted a decision to merge, by the end of the year, the Hydro Electric Power Plants Department and the Department of Lithuanian Power Plant and to implement some other changes in the organisational structure. Thus a new division of the Company, i.e. the Production Department, started operating on 1 January 2013. The changes in the organisational structure enabled Lietuvos energija, AB to optimise production processes, to apply best practice on a wider scale, to implement measures in the Company's operating plan and to allocate functions to employees more effectively.

Control of Kaunas HPP from Kruonis PSHP
On 17 October 2012, operators of the Hydro Electric Power Plants Department started control of Kaunas HPP from the central control panel of Kruonis PSHP. The advanced central control process enables an effective remote control of a facility. The new model of the Kaunas HPP control was implemented upon reconstruction of the power plant, during which modern equipment enabling a reliable remote control was installed. Optical communication channels were provided. Five shift managers were transferred from Kaunas HPP to Kruonis PSHP for the performance of control functions from the control panel of Kruonis PSHP.

Innovative business system
In 2012 the Company implemented an innovative business system that forms a basis for a more effective management of the innovation process, promoting creativeness of employees, and development of innovations. Employees may propose new ideas on the corporate Intranet or through the information boards provided in the offices of the Company. Convenience and public character of the process of proposing innovations supports the employees' interest in innovations and enables them to publicly discuss and evaluate the ideas raised. The smooth and continuous process is secured by the Innovation Committee and the Innovation Council established by the Company: they maintain continuous communication on corporate activities in the area of innovations, organise and coordinate the process of proposing and evaluating innovations, and perform selection of innovations. The Company organises a competition of best innovations; prizes are awarded to their authors. For all the new ideas that are in line with the corporate strategy, are cost effective and can potentially increase the efficiency of operations, implementation timeframes are established and responsible persons are appointed. By proposing and implementing innovations, the employees feel that they can contribute significantly to the improvement and management of the Company. 35 innovations were proposed by the employees in 2012; four of them have already been implemented.

Other important information about the operations and projects of Lietuvos energija, AB is provided below.

MATERIAL EVENTS IN THE REPORTING PERIOD

13 January 2012. The Board of Lietuvos energija, AB approved the implementation of Phases II and III of the project "Investigations into the Syderiai Geological Structure and Modelling for the Purposes of Construction of an Underground Gas Storage Facility" and the organisation of the well drilling works and investigations in the wells.

17 February 2012. The combined-cycle gas turbine unit (CCGT unit) was connected to the switchyard of LITGRID AB, a transmission system operator, prior to starting a six-month testing period.

18 March 2012. Twenty years since the start of operation of the Kruonis PSHP – one of the largest energy projects after the restoration of Lithuania's independence.

24 February 2012. A test start-up of the 455 MW CCGT unit constructed at the Lithuanian Power Plant was performed for the first time. The start-up followed after a four-month testing period.

8 March 2012. In order to optimise the operations of the Company's production unit, the Board passed a resolution to establish, by 1 April 2012, a new division of the Company: the Hydro Electric Power Plants Department including the departments of Kruonis PSHP and Kaunas HPP.

9 March 2012. The generator of the new 455 MW CCGT unit was synchronised with the transmission network for the first time, i.e. the unit being tested started generating its first megawatt-hours of power. The total quantity of electricity generated during the tests reached the customers through the transmission grid operated by LITGRID AB and the electricity exchange.

22 March 2012. A new trademark of the Company, "Green Lithuanian Energy", designating electricity generated from renewable energy resources, was presented. This electricity generated at Kaunas HPP is supplied to retail customers, which implement corporate social responsibility programmes, by Energijos tiekimas UAB.

11 June 2012. Lietuvos energija, AB received the OHSAS 18001:2007 / LST 1977:2008 certificate No LT0071S. By this certificate Bureau Veritas confirms that it has assessed the company's health and safety at work management system and has determined that the system is in conformity with the management system standard.

19 June 2012. The maximum power of the CCGT unit was reached for the first time after the steam turbine was put into operation by Lietuvos energija, AB.

22 June 2012. Lietuvos energija, AB organsied a presentation of its annual procurement plan for external contractors and suppliers. By holding public presentations of its procurement plans, the Company seeks to procure goods and services at lower prices and to increase profitability.

12 July 2012. Presentation of the Corporate Social Responsibility Report by Lietuvos energija, AB for 2011.

1 August 2012. Energijos tiekimas UAB, a company of Lietuvos energija, AB Group started supplying the green energy generated at Kaunas HPP to the first customer – natural person.

24 August 2012. Tests carried out in the CCGT unit of the Lithuanian Power Plant, the construction of which is nearing completion, have shown that the facility meets the design requirements. The test operation lasted 72 hours. According to the operating rules, tests of power plants and boiler houses are considered to be complete after main equipment has operated 72 hours at full load, at design parameters, consuming the main type of fuel, and under continuous or succession operating conditions.

20 September 2012. An extraordinary meeting of shareholders had adopted a decision to approve of the development of Kruonis PSHP, construction of biofuel boiler houses in the Lithuanian Power Plant, and dismantling of two units of the same plant.

20 September 2012. Mr Rimantas Vaitkus and Mr Aloyzas Vitkauskas, members of the Board of Lietuvos energija, AB were replaced by Mr Raimundas Petrauskas and Ms Laurentina Garbauskienė for the period until the end of the current Board's term of office.

24 September 2012. Drilling of the first exploratory well was started in order to assess the suitability of the Syderiai geological structure for the construction of an underground gas storage facility.

27 September 2012. In accordance with Resolution of the Government of the Republic of Lithuania of 4 July 2012, the entity that has indirect control over Lietuvos energija, AB has changed. 4,067,163,632 ordinary registered state-owned shares in Visagino atominė elektrinė UAB which had been held by the Ministry of Energy by the trusteeship right were transferred to the Ministry of the Economy. The shares grant 100% of votes at the general meeting of shareholders of Visagino atominė elektrinė UAB

17 October 2012. Operators of the Hydro Electric Power Plants Department of Lietuvos energija, AB started control of Kaunas HPP from the central control panel of Kruonis PSHP.

23 October 2012. Official opening of the CCGT unit.

23 November 2012. The Board of the Company approved a new corporate organisational structure based on strategic objectives of Lietuvos energija, AB as a national energy generating company and a new corporate action plan, which took effect from 1 January 2013.

21 December 2012. Lietuvos energija, AB received the Innovative Company Award in an annual national competition entitled "Innovations Award 2012", held for the eighth time in succession. Lietuvos energija, AB is the only company among this year's winners in which the majority of the shares is held by the State.

30 December 2012. 50 years since the putting of the first unit of the Lithuanian Power Plant into operation.

ACTIVITIES OF THE GROUP

Overview of business activities of Lietuvos energija, AB

Lietuvos energija, AB is engaged in wholesale electricity trade (i.e. trade among power generating companies and suppliers). The company sells electricity and supplies the power balancing services to both public and independent suppliers operating in the Lithuanian market, and exports and sells electricity on an electricity exchange.

The Company produces electricity at its three power plants, buys electricity from other suppliers and power generating companies, imports electricity, and buys it on the electricity exchange.

Power generation

Lietuvos energija, AB holds permits of unlimited duration to generate electric power. Power is generated at the Lithuanian Power Plant, Kaunas HPP and Kruonis PSHP. In 2012, production volumes were as follows: Lithuanian Power Plant 1.42 TWh, Kruonis PSHP 0.472 TWh, and Kaunas HPP 0.311 TWh.

Lietuvos energija, AB is focussed on the renewable energy resources. Kaunas HPP uses hydro power – a clean, flexible national resource which will never be depleted. In 2012, 1.16 TWh[1] of green power was produced and supplied to the grids in Lithuania, with the share of Kaunas HPP being over 28%.

The Company intends to use biofuel for future power generation in order to achieve greater diversification and to promote further development of renewable energy resources in Lithuania.

Trade in Lithuania

In 2012, the Company sold 3.85 TWh of electricity in the domestic market (public suppliers and other independent suppliers). Furthermore, in 2012 the Company bought and sold to LESTO, a public supplier, 0.394 TWh of electricity generated by wind farms connected to the transmission grid.

Trade with foreign countries

In 2012, the Company imported electricity from Estonia and Latvia and exported electricity to Estonia and Latvia: electricity imports totalled 0.833 TWh and exports totalled 0.495 TWh.

Other services

Lietuvos energija, AB also provides system services to the Lithuanian transmission system operator (TSO).

System services are aimed at ensuring stability and reliability of the energy system, prevention of and response to system emergencies, and the requisite power reserve in accordance with the established requirements for the supply quality and reliability. The system services include *power reserving, trade in regulation power and balancing power, reactive power management, and system recovery services.*

Power reserving service is a means to ensure the reliable operations of the energy system when, in emergency situations, power generation volumes drop or consumption increases suddenly. In such cases the power generating company provides the service of securing the power reserve and the maintaining of reserve power in the standby production facilities, i. e. the secondary and/or tertiary reserves are used. Secondary power reserve is the power of the installations or hydroelectric units in

[1] LITGRID AB [Interactive] [Accessed on 14 March 2013]. Internet access: http://www.litgrid.eu/index.php?1973822023

operation; such power can be activated within 15 minutes. Tertiary (cold) reserve is the power of the generating sources maintaining by the generating company that can be activated within 12 hours. All the three power plants of Lietuvos energija, AB provide the secondary and tertiary power reserve services. The secondary power reserve is ensured by the Kaunas HPP and Kruonis PSHP and the tertiary power reserve is ensured by Lithuanian Power Plant. In 2012, Lietuvos energija, AB sold about 2.02 TWh of electricity as secondary power reserve and 2.69 TWh of electricity as tertiary power reserve.

The *regulation power service* is required in order to balance the surplus and deficit of power in the energy system. Trading in the regulation power is conducted in real time, ensuring the reliable operations of the energy system every hour. Where there is not enough power in the system and the TSO gives an instruction to increase the generation, the Company increases its generation volumes and sells the requisite amount of regulation power to the TSO. In case of surplus of power in the energy system, the TSO instructs the Company to reduce the volumes and the Company purchases the surplus regulation power from the TSO. In 2012, Lietuvos energija, AB sold 0.032 TWh of electricity and purchased 0.03 TWh of electricity as regulation power.

The *balancing power* is the actual deviation from the power generation/consumption schedule planned by the TSO. Trade in the balancing power is conducted after the end of reporting month; it encourages the market participants to prepare accurate power generation and consumption forecasts. For example, if, during any hour, Lietuvos energija, AB generates a smaller amount of energy than scheduled, it has to buy the difference from the TSO (purchase of balancing power); and vice versa, if the hourly generation volume is larger than planned, it has to sell the difference to the TSO (sale of balancing power).

Reactive power control service is a system service aimed at levelling out any fluctuations in the loads of the power system and to ensure the requisite voltage and frequency levels. The reactive power control service is provided by the Kruonis PSHP operating in the synchronous condenser mode.

The service of system recovery after complete failure is the service aimed at effective start-up of the power-generating source after full or partial failure of the power system, without using power supply from the network. The service is provided by both Kruonis PSHP and Kaunas HPP.

Business activities of subsidiaries

Kauno energetikos remontas UAB. Core activities of the company include the diagnostics, rehabilitation, repairs and installation of energy equipment, manufacture of spare parts for such equipment, and manufacture of metal structures for energy and manufacturing applications, spare parts for boilers and engines, and hermetic oil transformers. Upon reorganisation of the energy sector in 2010, the company has become the main provider of services to the companies forming the production unit of the Group.

Kauno energetikos remontas UAB has direct influence over *Gotlitas UAB*, which is engaged in the hotel and other accommodation services, rent of properties, and commercial activities.

In 2012, Kauno energetikos remontas UAB was issued the certificates of the Integrated Management System according to ISO 9001:2008 (quality), ISO 14001:2004 (environmental protection), and OHSAS 18001:2007 (health and safety at work). The certificates will remain in force until December 2015.

Energijos tiekimas UAB is an independent electricity supplier. It supplies electricity to retail customers, which are obligated to purchase electricity in the free electricity market since 1 January 2010. The company holds a licence of an independent supplier (No. L1-NET-36) issued by the State Commission on Prices and Energy Control (SCPEC) and a permit to import electricity.

In 2012, Energijos tiekimas UAB had the largest share in the servicing of customers in the free market: about 30 to 40%. The company supplied green electricity generated from renewable energy resources to ten legal persons and one natural person, which jointly account for about 20% of the green electricity generated by Kaunas HPP.

Technologijų ir inovacijų centras UAB provides the following services: strategic information systems' support and development, infrastructure and business management systems' support and development, accounting, innovations and competences.

On 1 November 2012, Technologijų ir inovacijų centras UAB was merged with Data Logistics Center, an IT and telecommunications company. Technologijų ir inovacijų centras UAB took over all the rights, liabilities and assets of Data Logistics Center UAB.

Information about research and development

The Company uses long-term strategic planning to identify the lines of development of the Company and to estimate the required investments in the replacement or rehabilitation of production facilities. This forms the basis for a sound investment policy of the Company.

The following research and development projects were being implemented by the Company during 2012:

Investigations of the Syderiai geological structure
With the aim to construct an underground natural gas storage facility in which the required natural gas reserve will be accumulated, Phase 2 of the feasibility study on the Syderiai geological structure was initiated in 2011. It involved the checking of the results of Phase 1 (seismic explorations the geological structure) and the investigations of the geological structure in the wells, leading to an accurate and reliable assessment of the suitability of the geological structure for a gas storage facility.

In 2012, a contractor was selected and the geological-geophysical investigations into the structure were started in order to verify the findings the seismic studies, to adjust the boundaries of the geological structure, and to assess the impermeability of the surrounding faults. By the end of 2012, technical and working designs for the drilling sites and access roads were completed, temporary drilling sites and access roads were built, Syderiai-2 well together with two re-entry wells Syderiai-2R and Syderiai-2R1 were drilled, and investigations were conducted.

Technical audit of the Lithuanian Power Plant
AF Consult Ltd, a Finnish consultancy which had been awarded a contract in a public tendering procedure, conducted a comprehensive analysis of the present production capacities in the period from October 2011 until February 2012. The analysis involved an assessment of the plant's current condition and the processes of operational control and equipment maintenance and repairs. addition, prospects of Lithuanian Power Plant were examined, the plant's costs were compared with those of plants in other countries, and recommendations for a technically and economically optimal scenario of the plant's operations during the next 10 years were presented. The consultants carried out the plant's risk assessment for the period until 2020 having regard to the increasingly stringent provisions of the European Union and Lithuanian legal acts.

Feasibility study on the Development of Heat Production Facilities in Elektrėnai
In January – April 2012, Rambøll Danmark, a Danish consultancy, prepared a feasibility study assessing the possibility of expanding the use of biofuel for the generation of heat energy in the Elektrėnai region.

Upon assessment of several alternatives for the heat energy generation at the Lithuanian Power Plant, the consultants proposed that new heat generation capacities including biofuel-fired hot water boilers and gas-fired steam boilers should be installed. The total power of the biofuel boilers would be 40 MW and that of the gas boilers would be up to 50 MW.

Project on the Development of Heat Production Facilities in Elektrėnai
On completion of the study on the development of heat production facilities in Elektrėnai the Company continues the implementation of the project.

In 2012, progress in the project was achieved by carrying out the following activities: a positive conclusion on the screening for the environmental impact assessment was received, along with a positive conclusion on the assessment of impact upon public health, securing of the requisite quantities of biofuel by signing the preliminary supply contracts, investment projects were prepared and an agreement from the State Commission on Prices and Energy Control was obtained, a loan to ensure funding of the project was obtained, and an international tendering procedure for the procurement of designing, equipment and works was conducted.

It is estimated that 90% of the heat demand will be satisfied by generating heat in biofuel boilers and using local fuels. The gas boilers are required for the functioning of the production equipment of the power plant and the start-up of the plant's units kept in reserve.

It is planned that the new generation facilities, which will provide residents and businesses of Elektrėnai region with heat, will be put into operation in 2014.

Project on the development of Kruonis PSHP
Feasibility of a development project aimed at increasing the Kruonis PSHP capacities from 225 MW to 1125 MW was considered.

Additional flexible capacities of Kruonis PSHP are required in order to meet the future needs of the power transmission system and the market. They will enable a flexible real-time regulation of the imbalance in the power generation by wind farms, which is going to increase with Lithuania and other Baltic region countries increasing the share of renewable resources in the power generation. Upon completion of NordBalt and LitPol Link projects, the increased capacities of Kruonis PSHP will make a significant contribution to the security and reliability of the power transmission system by providing system services and the power reserve.

The new fifth 225 MW hydro unit of Kruonis PSHP will be able to operate at 110-225 MW in the pump mode and 55-225 MW in the generator mode. The estimated efficiency of the new unit is 78%.

At the end of 2012, the terms and conditions of the procurement procedure were prepared and published for potential contractors.

It is planned that the new equipment will be installed using the present structures, foundations, buildings, other equipment and engineering infrastructure. Competent authorities have concluded that no negative impact on the environment will be produced by the planned development of the Kruonis PSHP. Investments in the construction of the fifth unit of Kruonis PSHP will total approx. LTL 400 million.

Investments in non-current assets

In 2012, investments of the Company in non-current tangible assets totalled LTL 175.6 million (the Group: LTL 180.5 million). Investment in the new CCGT unit of the Lithuanian Power Plant accounted for the largest share of this amount, i.e. LTL 167.6 million (including capitalised interest).

Operating plans and forecasts

Business activities of the Company are based on the Corporate Strategy for 2012 – 2020 and the Action Plan for 2013 – 2015. The Action Plan sets out the measures implementing the strategy and structured according to the following programmes:

I. Programme on Assurance of Quality of Service
II. Programme on Diversification of Types of Energy Resources
III. Programme on Innovations and Operating Efficiency
IV. Programme on Formation of New Organisational Culture

Priority measures aimed at implementation of these programmes are as follows:

- Implementing the Kruonis PSHP Development Project. A tendering procedure for the selection of a contractor will be conducted and the designing and construction works will be started. It is anticipated that the project will be completed by the end of the NordBalt and LitPol Link projects.
- Implementing the Elektrėnai Project on the Development of Heat Generation Facilities. Estimated completion of the project: 2014.
- Dismantling of Units 3 and 4 of the Lithuanian Power Plant and implementing the programme on environmental measures. The dismantled equipment will be sold through a public tendering procedure. Estimated completion of the project: 2014.
- Completion of the Project on Investigations into the Syderiai Geological Structure by finalising the drilling of wells, investigations, data reinterpretation and modelling works. Estimated completion of the investigations – by the end of 2013. This will form a basis for adopting decisions on the construction of the underground gas storage facility and for estimating its price.
- Implementation of the integrated asset management system for energy facilities. The system will be used for the accounting for maintenance and repair works and for the planning and optimisation of such works. Estimated completion of the project: 2014.
- Project on the preparation of infrastructure for an industrial part at Kruonis PSHP. The purpose of the project is to make the territory around Kruonis PSHP more attractive to high-tech investors; the access road will be rehabilitated and the water-supply and sewerage lines will be installed. Estimated completion of the project: 2014.
- Improvement of the Health and Safety at Work Management System BS OHSAS 18000:2007 by implementing the audit recommendations and creating a new culture of safety at work.
- Implementing the Continuous Risk Assessment and Monitoring Model by the end of 2013.

3. ANALYSIS OF FINANCIAL RESULTS AND OPERATING RISKS

Financial results of the Company and the Group

Lietuvos energija, AB was registered on 20 July 2011 upon reorganisation of two public companies - Lietuvos energija AB and Lietuvos elektrinė AB by the method of merging, therefore, the results of both the Company and the Group for 2011 and 2012 are presented. No comparison between previous years' results and the results Lietuvos energija, AB is made.

Financial results of the Company and the Group:

	Company		**Group**	
	2012	**2011**	**2012**	**2011**
FINANCIAL INDICATORS ('000 LTL)				
Sales income	1 172 696	1 365 573	1 347 634	1 374 155
Income from other activities	3 895	23 480	96 180	55 352
EBITDA (earnings before tax + interest costs – interest income – dividend received + depreciation & amortisation + non-current & current asset impairment losses *)	115 520	83 160	139 370	68 410
Operating profit	51 251	15 146	55 655	13 161
Net profit	33 463	10 756	37 647	1 526
Profit before tax	42 573	11 591	46 820	2 275
Cash flows from operations	170 590	93 380	174 953	106 423
Liabilities to financial institutions	660 590	640 997	679 150	643 069
RATIOS				
Liabilities / equity	1,26	1,23	1,26	1,23
Liabilities to financial institutions / equity	0,39	0,39	0,40	0,38
Liabilities to financial institutions / assets	0,17	0,17	0,18	0,17
LOAN COVERAGE RATIO				
Loan coverage ratio (EBITDA / (interest costs + current portion of long-term debt))	1,81	1,39	2,17	1,29
PROFITABILITY RATIOS				
Operating profit margin	4,36%	1,09%	3,85%	0,92%
Gross profit margin	3,62%	0,83%	3,24%	0,16%
Net profit margin	2,84%	0,77%	2,61%	0,11%
Return on equity	1,99%	0,65%	2,20%	0,09%
Return on assets	0,88%	0,29%	0,97%	0,04%
Earnings per share, LTL	0,05	0,02	0,06	0,00
P/E** (share price / earnings)	24,97	76,04	22,19	535,95

* Excluding impairment of investments in associated companies and subsidiaries and excluding result of discontinued operations.
** The determination of the P/E ratio is based on the share price as of the year end.

Low profitability figures have been determined mainly by the specific character of the Company's operations: in 2012, income from regulated activities (electricity and heat generation at the Lithuanian Power Plant and power reserving services provided by the Lithuanian Power Plant and Kruonis PSHP) accounted for about 41% of total income. Profit margin is not included in the calculation of the Lithuanian Power Plant's generation cost and the price for system services.

Statement of Financial Position

As of 31 December 2012, the Company's liabilities to financial institutions amount to LTL 660.6 million and consist of liabilities under long-term loan agreements and the overdraft. The Group's liabilities to financial institutions total LTL 679.1 million. As of the end of the year, liabilities of Kauno energetikos remontas UAB under long-term and short-term loan and financial lease agreements amount to LTL 12.1 million. Energijos tiekimas UAB's liabilities to the bank under an overdraft agreement amount to LTL 6.5 million as of the year end.

The main changes in the structure of the Company's and the Group's balance sheets as of the end of 2012 compared with 2011, include an increase in the amounts of non-current assets and subsidies and a decrease in inventories due to the use of fuel oil stocks in the electricity generation process.

Statement of Comprehensive Income

Income

In 2012, the Company earned income of LTL 1,176.6 million. Income from the electricity sale and export, balancing power, and public-interest services accounts for the largest part of this amount. Compared with 2011, the Company's income decreased 15% due to market liberalisation. The Group's income in 2012 totals LTL 1,443.8 million, i.e. is similar to 2011. The decrease in the Company's income is compensated for by a 56% growth in the sales income of Energijos tiekimas UAB earned in the retail market and by the consolidation of the results of the subsidiary Technologijų ir inovacijų UAB since 2012.

Costs

Costs incurred in 2012 amount to: the Company LTL 1,125.30 million, the Group 1,388.2 million. The majority of these costs (85%, or LTL 958.4 m in the case of the Company, and 81%, or LTL 1,128.8 m in the case of the Group) are the costs of purchase of electricity or related services and of the fuel for the generation of electricity. Depreciation and amortisation costs amount to LTL 64.9 m and LTL 78.9 m for the Company and the Group respectively.

The operating costs of the Group excluding purchases related to electricity and its generation, depreciation and amortisation costs, pollution permits' revaluation costs and impairment losses amounted to LTL 155.5 million in 2012. The Group's operating costs, except above mentioned, in 2012 increased 26% compared with 2011 as a result of changes in the Group's structure (results of Technologijų ir inovacijų centras UAB was included in the Group's results from 2012).

Profit

In 2012, gross profit of the Group amounted to LTL 46.8 m and net profit to LTL 37.6 m as determined according to the International Financial Reporting Standards (IFRS).

In the same period, the Company earned net profit of LTL 33.5 m, the group of Kauno energetikos remontas UAB LTL 0.5 m, Technologijų ir inovacijų centras UAB LTL 3.4 m, and Energijos tiekimas UAB LTL 0.6 m.

Cash Flow Statement

In 2012, net cash flows from operations of the Company amounted to LTL 170.6 m and those of the Group to LTL 175 m, compared with LTL 93.4 m for the Company and LTL 106.4 m for the Group in 2011.

In 2012, the Group's net cash flows from investments amounted to LTL 172.7 m (2011: LTL 141.1 m). The Group's cash flows from financial activities amounted to LTL 53.2 m (2011: LTL 4.4 m).

In terms of financial and investment activities, the net cash flow of the Company decreased by LTL 52.2 m in 2012 compared with 2011, whereas that of the Group decreased by LTL 50.9 m.

4. HUMAN RESOURCES POLICY

Personnel of the Company

The main purpose of the human resources (HR) policy of Lietuvos energija, AB is to attract and retain highly-qualified employees and to create, together with them, a long-term partnership relationship and a common successful future of the Company based on the principle of mutual value-creation.

In 2012, Lietuvos energija, AB continued the process of formation of new organisational culture that was started in 2011. The following principles of the HR policy were finally established: a uniform performance evaluation and remuneration system based on the competence model, the procedure for assigning employees for training, the principles of long-term HR planning and staff recruitment.

On 1 April 2012, the new performance evaluation and remuneration system was introduced based on the model of competences of Lietuvos energija, AB developed in the same year. The new system was created in close collaboration with representatives of the Company's trade unions.

The new system has been built on the principles of fairness, clarity, universal application and comparison. Pay received by all members of Lietuvos energija, AB including management consists of the fixed part, the variable part, and fringe benefits. Members of the Board are an exception to this rule.

The fixed part of pay is established on the basis of the level of a position and the competences possessed by the employee. The fixed pay is subject to review on an annual basis as part of the annual employee performance evaluation process.

The variable part of pay is paid for the measurable performance results, i.e. attainment of objectives or tasks set for each position. Annual objectives are identified for managers and specialists, whereas the fixed pay for blue-collar workers depends on monthly performance results. The payment of the fixed part to managerial workers is allocated over three years.

Pecuniary fringe benefits includes benefits, financial assistance, additional paid leave, and one-off payments for additional workload, extraordinary performance, proposals for and implementation of innovations. Non-pecuniary fringe benefits includes training financed by the Company, events organised by the Company for employees and their children, services of an in-house medical station, and vaccination against seasonal diseases.

It appears that the new remuneration system is receiving favourable evaluation by the employees. According to the employee survey held in January 2013, the score of the *Remuneration* area is 0.5 points higher than in the previous survey (January 2012).

The model of competences of Lietuvos energija, AB has become the basis for the planning of human resources. The model is used in determining which competences the employees possess and in comparing them with the forecast demand for competences in the next three to five years. Upon establishing that the Company will lack employees with certain competences, an action plan for the acquisition of new competences (by developing current employees or hiring new ones) is prepared.

As of the end of 2012 the Company employed 511 people (including employees on child care leave) including specialists and line managers 58%, blue-collar workers 40%, and management 2%. The distribution of employees by position levels and the information on pay is provided below. The pay amounts include the fixed pay, the variable pay, and the extra pay for extraordinary performance.

Distribution of employees by position levels	Management	Specialists and line managers	Blue-collar workers	Employees total
Number of employees of Lietuvos energija, AB as of 31 December 2012	10	296	205	511
Average pay, LTL	12 346	4 494	2 862	

Men account for 77% and women account for 23% of the Company's employees. 39% of the employees have higher educational attainment, 15% further education, and 46% vocational secondary education. The distribution of employees by educational attainment is shown in the table below.

Distribution of employees by education	Higher	Further	Secondary / vocational secondary	Employees total
Number of employees of Lietuvos energija, AB as of 31 December 2012	198	78	235	511

Most employees of the company are people aged from 35 to 54, having a 10-year or longer record of service with the Company. They are highly qualified and experienced specialists forming the core of the organisation, in particular in production units where know-how and experience are particularly important.

Employees aged from 25 to 34 and having a record of service up to 10 years account for 25% of the Company's employees (Fig. 1 and Fig. 2). Most of them work in the Administration and in the Wholesale Department.

Fig. 1. Structure of employees by age

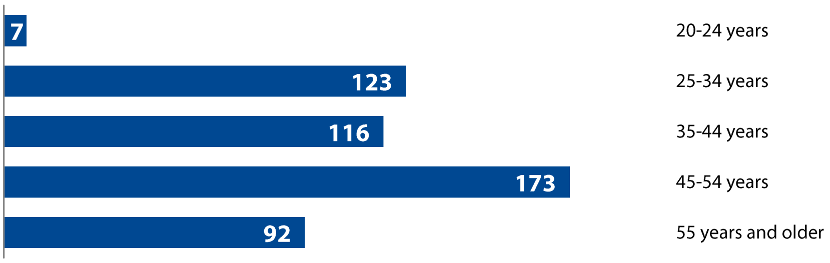


Fig. 2. Structure of employees by service record

As of the end of 2012, there were 33 employees in the Company who have either reached pension age or for whom less than 3 years have remained until pension age. They are experienced employees of high qualifications, therefore, it is important that they transfer their knowledge and experience to young specialists.

In order to attract young highly-qualified specialists to replace the retiring employees and ensure continuity, the Company is actively collaborating with educational establishments and accepts students of higher and vocational schools for internships/apprenticeships. In 2012, the Company took part in the Career Days organised by the Kaunas University of Technology and the ISM University of Management and Economics. 26 students of higher and further educational establishments had placements in the Company; one of them was offered a job. Another employee hired in 2012 has had his placement in the Company in previous years.

Employees of the Group

The Group of Lietuvos energija, AB, which consists of Lietuvos energija, AB, its subsidiaries Kauno energetikos remontas UAB, Energijos tiekimas UAB, Technologijų ir inovacijų centras UAB, and companies under indirect control, i.e. Gotlitas

UAB and VšĮ Respublikinis energetikų mokymo centras, employed 1,180 people as of the end of 2012 (including employees on child care leave). As it has already been mentioned, Lietuvos energija, AB employs 511 people, the group of Kauno energetikos remontas UAB 241, Energijos tiekimas UAB 17, Technologijų ir inovacijų centras UAB 250, and VšĮ Respublikinis energetikų mokymo centras 161. The numbers of employees and their distribution by level of positions is shown in the table below.

Distribution of employees by position levels	**Management**		**Specialists and line managers**		**Blue-collar workers**		**Employees total**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Lietuvos energija, AB	10	11	296	285	205	213	511	509
Energijos tiekimas UAB	2	2	15	13	-	-	17	15
Kauno energetikos remontas UAB	7	7	78	86	156	184	241	277
Technologijų ir inovacijų centras UAB	7	8	238	212	5	6	250	226
Data Logistics Center UAB*	-	1	-	6	-	-	-	7
VšĮ Respublikinis energetikų mokymo centras	1	2	160	143	-	-	161	145
Total	27	31	786	745	366	403	1180	1179

* In 2012, Data Logistics Center was merged with Technologijų ir inovacijų centras UAB.

In 2012 the structure of the Group by position levels was as follows: workers 31%, specialists 67%, and management 2%.

5. ENVIRONMENTAL PROTECTION

Lietuvos energija, AB seeks to respect the environment in its operations, sparingly use the natural resources, introduce advanced, efficient and environmentally friendly technologies, comply with the environmental laws and regulations, and implement preventive measures to reduce adverse impact upon the environment in a professional manner.

Environmental protection issues most relevant to the Company include the safe operation of facilities, safe use of substances dangerous to the environment, waste management, ensuring that the water level fluctuations in the Kaunas Lagoon and the Nemunas River downstream the Kaunas HPP are within the permissible limits etc.

Waste management

Lietuvos energija, AB hires licensed companies to manage waste that is generated in the divisions of the Company. The main types of hazardous waste include residual liquid fuel ash, insulation materials containing asbestos, oil-contaminated cloth, developers, filter materials, fluorescent lamps, oils, oily water etc.

In 2012, Lithuanian Power Plant transferred 1395 t of hazardous waste for processing and sold 310.64 t of ferrous metal scrap. Domestic waste collected in the plant's territory is removed by a specialist company under a contract; approx. 340 m^3 of domestic waste was generated in 2012. Paper and cardboard waste is transferred to a recycling company.

In 2012, Kruonis PSHP transferred 7.4 t of hazardous waste for processing and sold 5.76 t of ferrous metal scrap. Domestic waste collected in the plant's territory is removed by a specialist company under a contract; approx. 33.92 t of domestic waste was generated in 2012. Paper and cardboard waste is delivered to a recycling company. In the said period, 0.54 t of paper and cardboard was transferred.

In 2012, Kaunas HPP transferred 0.7 t of hazardous waste for processing and sold 1.92 t of ferrous metal scrap. Domestic waste collected in the plant's territory is removed by a specialist company under a contract; approx. 37.2 t of domestic waste was generated in 2012. Paper and cardboard waste is delivered to a recycling company.

Wastewater management

Results of studies conducted in 2012 show that the maximum permissible values and the planned/anticipated environmental pollution as stated in the IPPC permits issued to the Lithuanian Power Plant, Kruonis PSHP and Kaunas HPP were not exceeded for surface wastewater (stormwater), domestic wastewater and industrial wastewater.

The results of such studies have also confirmed that the maximum permissible values set for air and water pollution in the IPPC permits issued to the Lithuanian Power Plant, Kruonis PSHP and Kaunas HPP were not exceeded.

Preventive environmental protection measures

Divisions of Lietuvos energija, AB comply with the requirements for the air, surface waters, groundwater and soil pollution monitoring and protection as stated in the IPPC Permits. Calculations of pollution from continuous and mobile pollution sources are made, chemical substances are recorded, and internal audits of chemical substances and preparations used and of waste and wastewater generated are conducted on a regular basis.

At Kaunas HPP, safe operation is ensured by the new design of the hydro turbines. The efficiency of removal of mechanical pollutants at discharge into the Nemunas River upstream Kaunas HPP is as high as 90%.

In 2012, the wingwalls of the cooling water canal at the Lithuanian Power Plant were rehabilitated, bushes were removed, and the partition was repaired.

The State Metrology Authority confirmed in 2012 that Lithuanian Power Plant's automated monitoring systems (AMS) designed for the continuous emissions from boilers K-7A and K-7B and the combined-cycle unit comply with the requirements of LST EN 14181 and gave official approval for these systems.

A plan for the project on the installation of new modern process water treatment equipment in the chemical section of Lithuanian Power Plant by 2014 was prepared, specifications for the requisite equipment were formulated, and a tendering procedure for the supply of equipment and performance of construction works was announced. It is estimated that implementation of this project should cut the process water losses by about 20%.

In 2012 the Company launched a project on implementation of the automated monitoring systems for continuous emissions. The project involves the installation of the AMS in the flues of the boilers in Units 1 and 2; they will be used to exercise continuous control over the air pollution and to ensure compliance with the environmental regulations. The installation is scheduled to be completed in the middle of 2013.

Another project launched at Lithuanian Power Plant in 2012 is the reconstruction of the facilities for the treatment of water contaminated with petroleum products. The project will involve the cleaning of sediment tanks, waste treatment, and reconstruction of flotation equipment. The Company expects to markedly reduce the water treatment costs and to improve the treatment quality. It is planned that the project will be completed in 2013.

Facilities using renewable energy resources

A solar energy facility, one of the largest in Lithuania, is operated at Kruonis PSHP. The solar energy collector battery, installed on the roof of the electrode boiler house of the power plant, generates heat energy for the production of hot water. Hot water requirements of Kruonis PSHP in the warm season are fully met by the solar energy. 65.1 MWh of heat energy was generated by this method at the power plant in 2012.

II. INFORMATION ABOUT SECURITIES, AUTHORISED CAPITAL AND MEMBERS OF MANAGEMENT BODIES OF THE ISSUER

1. INFORMATION ABOUT SECURITIES OF THE ISSUER

The authorised capital of Lietuvos energija, AB amounts to LTL 635,083,615 and has been divided into 635,083,615 ordinary registered shares of one Litas par value. All the shares have been fully paid for. On 1 September 2011, shares of Lietuvos energija, AB were listed on the Official Trading List of NASDAQ OMX Vilnius. The shares of the Company are traded on NASDAQ OMX Vilnius Securities Exchange ("VSE").

As of 31 December 2012, the Company has 635,083,615 ordinary registered shares of one Litas par value in issue.

ISIN code LT0000128571
Abbreviation of securities LNR1L

Shares of the Company have not been traded in other regulated markets.

All the shares of the Company are ordinary registered shares of the same class and grant equal rights to their holders.

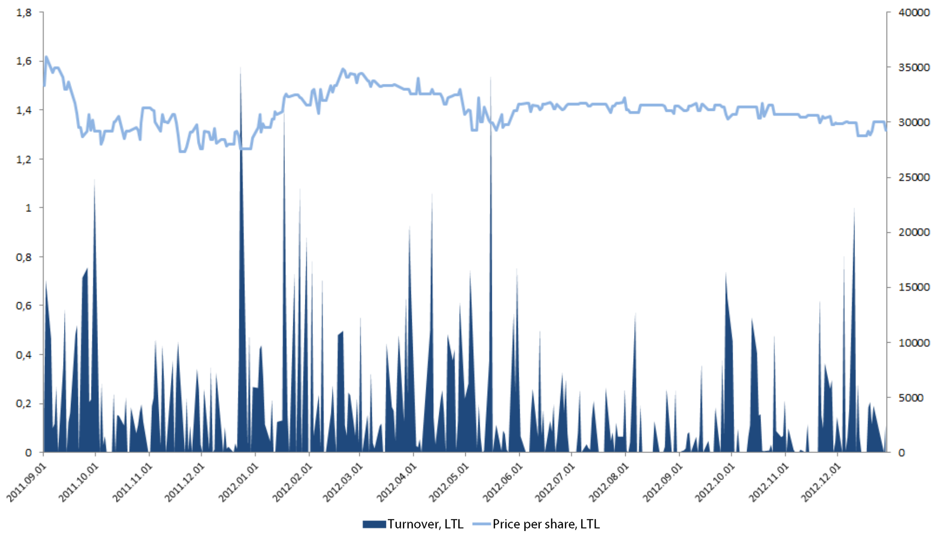
The Company has not acquired or transferred own shares during the reporting period.

The Company has not acquired its own shares. No subsidiary has acquired shares of the Company either.

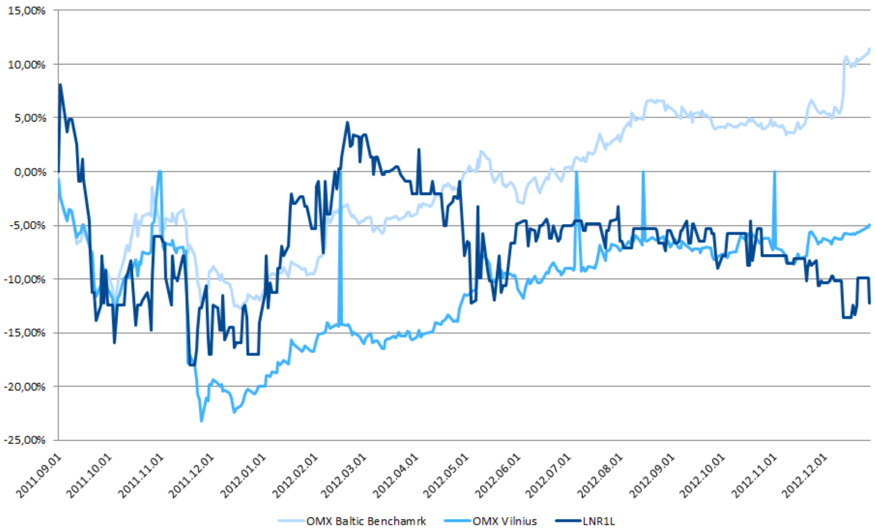
Structure of authorised capital

Class of shares	Number of shares	Par value, LTL	Total par value, LTL	% of authorised capital
Ordinary registered shares	635 083 615	1	635 083 615	100.00

Dynamics of prices for shares in Lietuvos energija, AB and share turnover



Dynamics of prices for shares of Lietuvos energija, AB and dynamics of OMX Vilnius and OMX Baltic Benchmark Indexes



The highest price for the Company's shares at a stock exchange session in 2012 was LTL 1.571 per share, the lowest price was LTL 1.288 per share. The share turnover during the period from 1 January 2012 until 31 December 2012 was 304,320 shares. As of the last trading day of 2012, i.e. 28 December, the price per share of Lietuvos energija, AB was LTL 1.317.

Dividend

The general meeting of shareholders of Lietuvos energija, AB held on 30 April 2012 approved the allocation of profit of Lietuvos energija, AB for the year ended on 31 December 2011. The general meeting decided not to declare dividend for 2011.

Information on the Issuer's agreements with securities brokers

The Issuer has concluded an agreement on keeping of accounting for the Issuer's securities and on management of personal securities accounts with Swedbank, AB. The agreement expires on 31 December 2013.

Information on the Issuer's agreements with securities brokers and/or credit institutions providing investment services and/or carrying out investment activities

On 21 December 2010, the Company and Swedbank, AB concluded an agreement on keeping of accounting for the Issuer's securities, which expires on 31 December 2013.

Restrictions on transfer of securities

No restrictions on transfer of securities were applied to the Company.

Rights and responsibilities attached to shares

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

- Receive part of the Company's profit (dividend);
- Receive part of the assets of the Company under liquidation;
- Receive shares free of charge when the authorised capital is being increased from the Company's funds save for exceptions established in the Republic of Lithuania Law on Companies;
- Acquire shares or convertible debentures issued by the Company by the pre-emption right save for the case when the general meeting of shareholders decides to withdraw this right for all the shareholders according to the procedure established by save for exceptions established in the Republic of Lithuania Law on Companies;

- Lend money to the Company in the manner permitted by the law, however, where the Company borrows from the shareholders it may not use its property as security for the loan. Where the Company borrows from its shareholders, the interest rate may not exceed the average interest rate applied by commercial banks in the place of residence or in the place of business of the lender as of the date of the agreement. In such a case the Company and the shareholders may not agree on higher interest rates;
- Transfer all or part of his shares to other persons;
- Demand that other shareholders sell their shares to him on a mandatory basis or buy shares from him on a mandatory basis in the cases and according to the procedure established by the Law on Securities Market;
- Other property rights provided for by the laws.

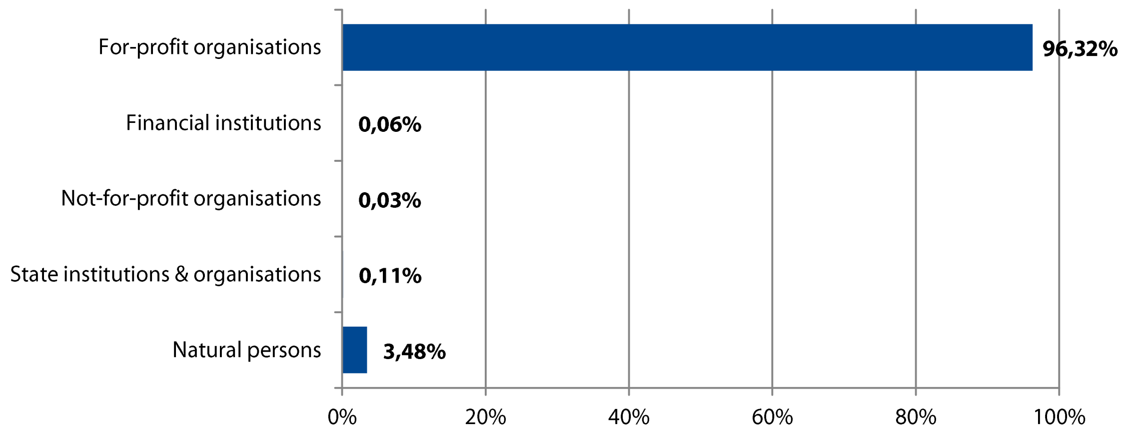
An ordinary registered share grants its owner (shareholder) the following personal non-property rights:
- Attend the general meetings of shareholders;
- Vote at the general meetings of shareholders using the votes attached to the shares; an ordinary registered share grants one vote to its holder;
- Receive information about the Company to the extent established by the law;
- File a lawsuit against the Company for the damage done by non-fulfilment or improper fulfilment of duties, provided for in the laws and the Articles of Association, by the Head of the Company and members of the Board of the Company and file a lawsuit in other cases established in the law;
- Other non-property rights provided for by the laws.

2. INFORMATION ABOUT SHAREHOLDERS OF THE ISSUER

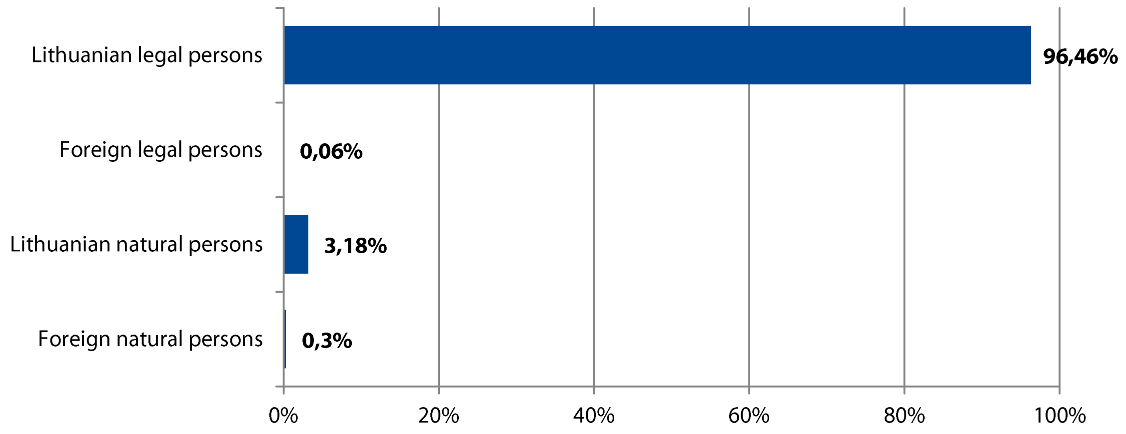
Total number of shareholders: 6,406. List of shareholders whose shares account for more than 5% of Lietuvos energija, AB authorised capital as of 31 December 2012:

Name	Class of shares	Number of shares	% of authorised capital	% of voting shares
Visagino atominė elektrinė UAB Business ID 301844044 Žvejų g. 14, Vilnius	Ordinary registered shares	610 515 515	96,13	96,13

Structure of the Issuer's shares by shareholder groups as of 31 December 2012



Structure of the Issuer's shares by shareholder origin and status as of 31 December 2012



Shareholders having special control rights and description of such rights

Neither shareholder of Lietuvos energija, AB has special control rights. All the shareholders of the Company have equal rights (property and non-property rights) provided for in the Republic of Lithuania Law on Companies and the Articles of Association of the Company.

Restrictions on voting rights

The Group has imposed no restrictions on voting rights.

Agreements between shareholders which are known to the Issuer and due to which the transfer of securities and/or voting rights can be restricted

There were no agreements between shareholders of Lietuvos energija, AB due to which transfer of securities and/or voting rights can be restricted.

3. INFORMATION ABOUT MANAGEMENT BODIES OF THE ISSUER

According to the Articles of Association, management bodies of Lietuvos energija, AB include:

- the General Meeting of Shareholders;
- the Board; and
- the CEO.

The Board is the supreme standing body of the Company. The scope of competence and the procedure for the adoption of decisions and election ad replacement of members are established by the laws, other legal acts and the Articles of Association.

The Board consisting of 5 (five) members is elected by the general meeting of shareholders for 4 (four) years. The Board elects its chairman from among its members. In case if the Board is recalled, resigns or ceases to perform its duties prior to the end of the term of office, the new board is elected for the remaining period of the term of office of the Board. Where individual members of the Board are elected, they are elected until the end of term of office of the present Board.

The shareholder (or his/her representative) that puts up a candidate for the Board member's position must submit to the general meeting of shareholders a written statement about qualifications of the candidate, his/her experience in managing positions, and fitness for the position of the Board member.

The Board of the Company may adopt decisions on:

- The Company's acting as a founder or a member of a legal person;
- Transfer of any shares in the Company or votes attached thereto to third parties and on restrictions thereon;

- Formation or termination of branches and representatives offices of the Company;
- Issue of debentures;
- Disposal of the Company's facilities stated in the Republic of Lithuania Law on Enterprises and Facilities Having Strategic Significance for National Security;
- Conclusion of transactions with the value exceeding LTL 10 million;
- Other decisions provided for in the Articles of Association.

In some cases the Board must obtain an approval of the general meeting of shareholders prior to adopting a decision.

The Board elects and recalls the Head of the Company. The Company is headed by the CEO who organises and directs operations of the Company, acts on behalf of the Company and performs other functions established in the laws and the Articles of Association.

14 meetings of the Board of Lietuvos energija, AB were held in 2012.

Procedure for amending the Articles of Association

Articles of Association of the Company and its subsidiaries may only be amended by the general meeting of shareholders.

Information on the Audit Committee

According to the Republic of Lithuania Law on Audit, a public interest enterprise which is a subsidiary and financial statements of which are consolidated may be exempted from the requirement to form an audit committee as established in the said law, provided that such committee has been formed by the parent company. As parent company Visagino atominė elektrinė UAB has an audit committee, formation of a separate audit committee in the Company is not mandatory and, therefore, such committee has not been formed.

Pursuant to the Republic of Lithuania Law on Audit, functions of an audit committee of Lietuvos energija, AB are performed by the Audit Committee of Visagino atominė elektrinė UAB.

Member of Audit Committee	Shares of the Issuer held by the member	Term of office	Employer
Vygantas Reifonas (independent member)	-	March 2011 – March 2015	Bank of Lithuania
Danielius Merkinas (independent member)	-	March 2011 – March 2015	Nordnet UAB
Marius Garuckas (independent member)	-	March 2011 – March 2015	GlaxoSmithKline Lietuva UAB

Lina Šmočiukienė resigned from Members of the Audit Committee of Visagino atominė elektrinė UAB on 28 October 2012, therefore, as of 31 December 2012 the Audit Committee of Visagino atominė elektrinė UAB consisted of three of the four members provided for in the regulations thereof.

Main functions of the Audit Committee of Visagino atominė elektrinė UAB:

- Oversee the process of drawing up of the financial statements of the Company and its subsidiaries;
- Oversee the effectiveness of the internal control system and risk management systems in place at the Company and its subsidiaries; perform analyses and reviews of the need for and appropriateness of such systems;
- Oversee the adherence to the principles of independence and objectivity by the certified auditor and the audit company and make relevant recommendations;
- Oversee the conduct of audits of the Company and its subsidiaries, evaluate the effectiveness of the audits and management's response to the recommendations made by the auditors;

- Oversee the effectiveness of the internal audit function of the Company and its subsidiaries, analyse the need for and appropriateness of such function, make recommendations on matters related to the internal audit and take action as required.

4. MEMBERS OF MANAGEMENT BODIES AND THEIR PARTICIPATION IN THE AUTHORISED CAPITAL OF THE ISSUER

Members of the Board as of 31 December 2012

Position	Name	Start date	End date	Number of shares of the Issuer held
Chairman and Member of the Board	Kęstutis Žilėnas	2011-07-04	2013-02-11*	-
Member of the Board	Aloyzas Vitkauskas	2011-07-04	2012-09-20	-
Member of the Board	Dalius Misiūnas	2011-07-04	to date	-
Member of the Board (independent)	Sonata Matulevičienė	2011-12-12	to date	-
Member of the Board	Rimantas Vaitkus	2011-12-12	2012-09-20	-
Member of the Board	Laurentina Garbauskienė	2012-09-20	to date	-
Member of the Board (independent)	Raimundas Petrauskas	2012-09-20	to date	-

*Kęstutis Žilėnas resigned as the Chairman and Member of the Board of Lietuvos energija, AB on 11 February 2013.

Participation by the Board Members in other companies and organisations and interests and votes in other companies exceeding 5%

Name	Position and organisation	Interest in other company's capital, %	% of votes held
Raimundas Petrauskas	Member of the Board, Lietuvos energija, AB CEO of Schmitz Cargobull Baltic Participation in LEAN and Lithuanian Business Managers Club	-	-
Laurentina Garbauskienė	Member of the Board, Lietuvos energija, AB Head of State-Controlled Enterprises Division, Company Law and Public Procurement Policy Department, Ministry of the Economy	-	-
Sonata Matulevičienė	Member of the Board, Lietuvos energija, AB Member of the Lithuanian Branch, International Coach Federation (ICF) Member of the Baltic Institute of Corporate Governance Member of the Baxter Baltics Management Team	-	-

Dalius Misiūnas	CEO and Member of the Board, Lietuvos energija, AB Chairman of the Board, Kauno energetikos remontas UAB Member of the Board, Technologijų ir inovacijų centras UAB Chairman of the Board, NT Valdos UAB Chairman of the Board, Energijos tiekimas UAB Member of the Council, VšĮ Respublikinis energetikų mokymo centras President of the National Electric Power Association Member of the Technology Development Committee of the Research, Innovation and Technologies Agency Member of the Business Council, Kaunas University of Technology Member of Alumni Club, Kaunas University of Technology Member of the Steering Committee, National Integrated Programme and National Research and Scientific Cooperation Programme.	-	-

Members of Administration of the Company as of 31 December 2012

Position	Name	Start date	End date	Number of the Issuer's shares held
CEO	Dalius Misiūnas	2011-02-12	to date	-
Chief Financier/ Head of Accounting Division	Giedruolė Guobienė	2011-08-01	to date	-

Information on amounts paid, other assets transferred and guarantees provided by the Issuer to these persons (total amounts and average amounts per member of a collective management body, CEO and Chief Financier) in the reporting period

	Amounts of money in 2012, LTL	Other assets and guarantees in 2012, LTL	Total, LTL
Per member of the Board on average	249 372		249 372
All members of the Board collectively	249 372		249 372
CEO of the Company	244 647		244 647
Chief Financier of the Company	108 629		108 629

Significant agreements to which the Issuer is a party and which would take effect, would be amended or would cease in case of changes in the Issuer's control status - none.

Agreements between the Issuer and members of its management bodies or its employees providing for a compensation in case of their resignation or dismissal without a valid reason or termination of employment due to changes in the Issuer's control status - none.

Information about significant related-party transactions is presented in the Explanatory Notes to the Financial Statements for 2012.

Detrimental transactions concluded in the reporting period on behalf of the Issuer (transactions not in line with the Company's objectives or normal market conditions; infringing interests of the shareholders or other stakeholders etc.) which have had or might have an adverse impact on the Issuer's operations and/or operating result as well as information on transactions involving a conflict of interest between the responsibilities that the Issuer's management,

majority shareholders or stakeholders have to the Issuer and their private interests and/or positions held elsewhere - none.

5. MAIN CHARACTERISTICS OF THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEMS

Every month the Company receives financial reports from its subsidiaries for analysis. The Company consolidates financial statements of its subsidiaries. The Chief Financier of the Company exercises control over the consolidation of financial statements and the timely and correct collection of data from the Group's companies. The drawing up of the Company's financial statements and the internal control and financial risk management systems are duly managed according to the provisions of relevant legal acts.

Political risk

Operations of the Company are governed by the Republic of Lithuania Law on Electricity and the related regulations. Amendments to this law may affect the operations and results of the Company. Decisions on electricity pricing are adopted by the State Commission on Prices and Energy Control, therefore, results of the Company's operations may depend on its decisions.

Financial risk

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

Credit risk

Credit risk related to accounts receivable is limited as key customers of the Company are large and reliable companies. Credit risk is managed through continuous monitoring.

Credits risk related to cash at banks is limited as both the Group and the Company conduct operations through banks having high credit ratings given by foreign rating agencies.

Liquidity risk

Liquidity risk is managed by planning the cash floe movements in the Group's companies. Cash flow forecasts are made in order to minimise liquidity risk. Overdraft agreements and credit line agreements are used for short-term balancing of both incoming and outgoing cash flows.

The Company's liquidity ratio (current assets/current liabilities) and quick ratio (current assets-inventories/current liabilities) are 1.13 and 0.93 respectively as of 31 December 2012. The Company's liquidity ratio (current assets/current liabilities) and quick ratio (current assets-inventories/current liabilities) are 1.23 and 1.04 respectively as of 31 December 2012.

Market risk

Income and cash flows of the Group companies are influenced by fluctuations of market interest rates as all the loans of the Group companies as of 31 December 2012 are variable interest rate loans. Increase in interest-rate risk mainly depends on long-term loans. The variable interest rates stipulated in the long-term loan agreements concluded by the Group are linked to LIBOR EUR. The Company has not made loans to the Group's companies as of 31 December 2012. The Company has acquired tradable pollution permits (TPP) that are accounted for at fair market value, therefore, it is exposed to a risk of changes in the prices for such permits. A drop in the TPP prices in 2012 has had a negative impact on the annual performance indicators of the Company.

The Group's companies have not concluded any interest rate swap contracts as of 31 December 2012.

Foreign currency risk

In order to manage foreign currency risk the Group concludes credit agreements in EUR or LTL only. The currencies of purchase and sale agreements concluded by the Company are mainly EUR and LTL as well.

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

The Group companies are not exposed to significant concentration of foreign currency risk, therefore, no financial instruments were used for managing foreign currency risk in 2012.

Securities price risk

The Company has not acquired securities, therefore, it is not exposed to risks related to prices of securities.

Technical and production risk

The Company has formulated and documented the risk management procedures, the Risk Management Committee has been established, internal regulations on identification and assessment of risks have been formulated and approved, and risk management policies have been formulated and approved. Based on these documents, the Company has identified and assessed the risks and approved the Risk Register. A draft action plan on risk management measures has been prepared.

Lithuanian Power Plant

The Health and Safety at Work Management System OHSAS 18001:2007 was implemented at Lietuvos energija, AB (certificate received on 11 June 2012).

The project on modernisation of physical safety systems is being continued and recommendations made after the physical safety audit in 2011 are being implemented.

The intermediate steam superheater in Boiler No 8, the design service life of which had expired, was replaced.

A project on reconstruction of outdated and unreliable flotation equipment was launched.

An assessment of occupational risk was conducted for 8 workplaces. To reduce the occupational risks, a relevant action plan was prepared. The Internal Regulations of the Company were amended with the aim to reduce the identified occupational risks to the acceptable level.

A physical safety integration project was implemented: the physical safety system of the combined-cycle gas turbine unit (CCGT unit) was connected to the physical safety system of the Lithuanian Power Plant and the video/access control and alarm systems were made more effective in order to ensure uniform and integrated physical safety system at the power plant.

Physical safety of the CCGT unit and Lithuanian Power Plant was optimised by hiring a single physical safety company for this purpose.

Kruonis PSHP

Risk assessment at workplaces was conducted. The employees were made conversant with the occupational risks present at their workplaces.

An automated control system informing about deviations from permissible limits in the technical condition of the hydraulic engineering structures was implemented.

A project on the replacement of protection equipment for hydro unit No 3 was completed. Part of the physical safety system was rehabilitated by replacing video monitoring cameras.

Kaunas HPP

Operating control of Kaunas HPP has been transferred to the central control panel of Kruonis PSHP. In case of an emergency, remote control of Kaunas HPP from this panel will be possible.

Health and safety at work audits according to OHSAS 18001:2007 were carried out. No deviations were found and recertification was granted.

Risk assessment at workplaces was conducted. The employees were made conversant with the occupational risks present at their workplaces.

Environmental risks

The main environmental requirements set for the Company include the use of environmentally friendly materials, ensuring that the energy installations and structures fit into the environment, and ensuring that changes in the water level in the Kaunas Lagoon and the Nemunas River downstream the Kaunas HPP are kept within the permissible range. At present the Company is fully compliant with the environmental regulations.

III. OTHER INFORMATION

References and additional explanations about the information provided in the consolidated financial statements

The Explanatory Notes to the Financial Statements for 2012 contain detailed explanations of financial information.

Audit information

Auditor of the Company: PricewaterhouseCoopers UAB
J. Jasinskio 16B, LT-01112 Vilnius, Lithuania

Other agreements with auditors

The audit firm that audited financial statements of Lietuvos energija, AB for 2012 carried out a review of financial information, provided additional training services, and provided consulting on accounting for pollution permits.

ANNEX 1

Lietuvos energija, AB Notice of Compliance with the Code of Corporate Governance for Companies Listed on NASDAQ OMX Vilnius

According to Article 21(3) of the Republic of Lithuania Law on securities and Clause 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, this Notice issued by Lietuvos energija, AB discloses how the Company complies with the provisions of the Code of Corporate Governance approved by the Vilnius Securities Exchange for companies the securities of which are traded in the regulated market.

Principles / Recommendations	Yes / No / Not applicable	Comments
Principle I: Main Provisions		
The main purpose of the company should be the satisfaction of the shareholders' interests, at the same time ensuring a 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 strategies of the Company are published in the Company's website and in the Annual Report 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).
1.3. Corporate supervision and management bodies should closely cooperate in order to maximise the benefits for the company and the shareholders.	Yes	The Internal Audit Department of the Company, which is subordinate to the Board, and the Head of the Company work together in order to maximise benefits for the Company and its shareholders.
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 management 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 (allots funds for the implementation of the collective agreement, incentives to employees etc.). 2. The Company discharges its financial liabilities and other obligations according to the budget approved by the Board.
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 divisions of functions between corporate bodies, and		

safeguarding of shareholders' interests		
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.	Yes	According to the Articles of Association of the Company, management bodies of the Company include the General Meeting of Shareholders, the Board and the Head of the Company.
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	According to the Articles of Association, the Company is directed by the Board (the Board analyses, considers and evaluates the Company's operations and the operating environment, plans operations, adopts key decisions on corporate governance, and exercises control over operations).
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.	N/A	The Board 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 generation, supply, import, export and trading, 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 is formed in the Company, please see Comment to Item 2.1.
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	According to Article 33 of the Articles of Association, the Board of the Company consists of 5 (five) members. In the opinion of the Board, such number is sufficient as ensures effective adoption of decisions. The Board adopts decisions 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. No Supervisory Council is formed in the Company, please see Comment to Item 2.1.
2. Consulting directors or members of the supervisory board should be appointed for a defined term, with the opportunity for	N/A	No supervisory council has been formed in the Company, please see Comment to Item 2.1. The Board is elected for the term of office of 4

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.		(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 collective 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	According to Clause 37 of the Articles of Association, each candidate to the Board Members must submit to the general meeting of shareholders a declaration of interests, stating any circumstances that might give rise to a conflict of interests between the candidate and the Board. 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	Yes/No	The recommendation has been implemented. Information about the Board Members' positions or participation in other companies is collected on regular basis and is included in the Annual Report. 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.

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.		
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 include information on its composition and specific competences of its members related to their work in the body.	Yes	Information about candidates to the Board Members is presented to the general meeting of shareholders, including information on 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.
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.	Yes/No	According to the Republic of Lithuania Law on Companies, the Board is elected and its members' qualifications are evaluated by the general meeting of shareholders. The Board itself may not determine its composition. It should also be noted that the Company is engaged in the power generation, supply, import, export and trading, as well as ensuring of energy security, and the majority of the Board Members are specialists in energy. Regarding Audit Committee, please see Comment to Item 4.14. Regarding Remuneration Committee, please see Comment to Item 4.13.
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/No	Up until now there was no need in the Company to offer the newly appointed Board members an individual programme for making them conversant with the position and the Company.. 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/No	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 are 2 (two) independent member of the Board out of 5 (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	Yes/No	No specific independence criteria have been set for Board Members as there was no need for this until now. Also please see Comment to Item 3.6.

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 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 ay 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.	No	Please see Comment to Item 3.6.
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	Up until now the Company has not had the practice of publishing conclusions on evaluation of independence of the Board Members. Please see Comment to p. 3.6.
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	Please see Comment to Item 3.9.
3.11. Independent members of a collegiate body may be remunerated for their work and attendance of meetings of the body out of the company's funds. The size of the	Yes	The members of the Board are remunerated by the Company, with the conditions of remuneration established by the general meeting of shareholders.

remuneration should be approved by the general meeting of shareholders.		

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. The Board does not perform additional functions related to the integrity and transparency if the financial accounting and control system under the Articles of Association.
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 No	All members of the Board act in good faith in the interests of the Company. No evaluations of independence of the Board Members are made. Please see Comments to Items 3.6, 3.7.
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	Yes	Members of the Board take an active part in the meetings of the collegiate body. The statutory quorum was present in all the meetings held in 2012 . The Board Members attending the meetings are recorded in the minutes .

shareholders should be notified thereof.		
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 Members in the communication with and obligations to the shareholders is determined according to the procedure established by the law.
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/No No	Management bodies of the Company conclude and approve transactions according to provisions of the legal acts and Articles of Association of the Company. No evaluations of independence of the Board Members are made, please see Comment to Item 3.6. Article 17.2 of the Articles of Association of the Company establishes 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; according to Article 37, the Board Member is obliged to immediately notify the Company and the Board in writing of any circumstances that may give rise to a conflict of interests between the Board Member and the . Company. No evaluations of independence of the Board Members are made, please see Comment to Items 3.6, 3.7.
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**	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. Please see Comment to Item 4.13.

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.		
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 provided 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.	Yes/No	According to the Articles of Association, the Board adopts decisions in the key areas. The Board elects and dismisses the Head of the Company, sets his/her remuneration and other conditions of work, approves his/her job regulations, gives incentives and imposes penalties. No Appointments, Audit or Remuneration Committees have been formed in the Company. 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 these committees. According to the Republic of Lithuania Law on Audit, a public interest enterprise which is a subsidiary and financial statements of which are consolidated may be exempted from the requirement to form an audit committee as established in the said law, provided that such committee has been formed by the parent company. As parent company Visagino atominė elektrinė UAB has an audit committee, formation of a separate audit committee in the Company is not mandatory or necessary.
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	Yes/No	Please see Comments to Items 4.7, 4.12, 4.13, 4.14.

collegiate body remains fully responsible for the decisions adopted within the scope of its competence.		
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 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.	Yes/No	Please see Comments to Items 4.7, 4.12, 4.13, 4.14.
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/No	Please see Comments to Items 4.7, 4.12, 4.13, 4.14.
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/No	Please see Comments to Items 4.7, 4.12, 4.13, 4.14.
4.12-14. Appointments, Remuneration and Audit Committees **4.12.1. The main functions of the Appointments Committee should be as**	Yes/No	These Committees have not been formed in the Company but their functions are performed indirectly. Please see Comments to Items 4.7, 4.12, 4.13,

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.		4.14.
4.15. Every year the collegiate body should make a self-assessment, which should include an assessment of the structure, 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.	No	Until now there has been no need for the Board to perform a formal self-assessment and to publish its results as there is no such requirement in the legal acts. Activities of the Board are assessed by the shareholders of the Company according to the procedure prescribed by the law.

Principle V: Working procedures of the corporate collegiate bodies

The working procedures of the collective 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	This recommendation has been implemented pursuant to the Work Regulations of the Board.
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 according to a pre-approved annual schedule. Normally, at least 12 meetings of the Board are held during a year.
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 10 (ten) 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 is formed at the Company, therefore, the issue of coordination is not relevant.

Principle VI: Unbiased treatment of shareholders and shareholders' rights

The corporate government system should ensure unbiased treatment of all shareholders including minority shareholders and foreign shareholders. The corporate management system 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 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, 29 and 30 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 place, date and time of general meetings of shareholders of the Company are established in such a way so that all shareholders are enabled to attend the meeting. The shareholders are afforded the opportunity to familiarise themselves with the materials of the meeting according to the procedure prescribed by the laws.
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	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

completing the general ballot.		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.	Ne	If the shareholders express such a wish and if this is feasible, the Company would enable the shareholders to vote by means of telecommunications, however, at present the Company has no such practice as this would require additional investments.

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 a void 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, value of the interests.	Yes	The Company complies with this recommendation.
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	The Company complies with this recommendation.
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	Yes	The Company complies with this recommendation.

meeting. Recommendation 4.5 also applies to the transactions referred to above.		
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	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 (Clause 5.5 of the Work Regulations of the Board). 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.	Yes/No	The Company has a procedure in place for the approval, review and publishing of the remuneration policy including directors' remuneration, however, the Company has no practice of preparing a remuneration report. 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 Yes	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	Yes/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 to Item 8.1.

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.		
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.	N/A	Please see Comment to Item 8.1.
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	N/A	Please see Comment to Item 8.1.

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 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	Yes/No	Please see Comment to Item 8.1.

sufficient to allow the company not to pay the variable component in case if the performance criteria are not met.		
8.7. The payment of the variable component should depend on pre-set and measurable performance evaluation criteria.	Yes/No	Please see Comment to Item 8.1.
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.	Yes/No	Please see Comment to Item 8.1.
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.	N/A	Please see Comment to Item 8.1.
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.	N/A	Please see Comment to Item 8.1.
8.11. Severance pay should not be paid if employment contract is terminated on the grounds of poor performance.	N/A	Please see Comment to Item 8.1.
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.	N/A	Please see Comment to Item 8.1.
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.	N/A	Please see Comment to Item 8.1.
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 remuneration based on share price fluctuations should depend on pre-set and measurable performance evaluation criteria.	N/A	Please see Comment to Item 8.1.
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	N/A	Please see Comment to Item 8.1.

related to the share acquisition. The number of shares to be acquired should be pres-set, e. g. the value of annual remuneration (variable plus fixed) multiplied by two.		
8.16. Remuneration to consulting directors or members of the supervisory council should not include share options.	N/A	Please see Comment to Item 8.1.
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.	N/A	Please see Comment to Item 8.1.
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.	N/A	Please see Comment to Item 8.1.
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.	N/A	Please see Comment to Item 8.1.
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 directors'	N/A	Please see Comment to Item 8.1.

remuneration.		
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.	N/A	Please see Comment to Item 8.1.
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.	N/A	Please see Comment to Item 8.1.
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 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.	N/A	Please see Comment to Item 8.1.

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 i*nclude 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	The corporate governance system ensures respect for the statutory rights of stakeholders. For example, 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 permitted by the laws.
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	
9.3. Where stakeholders take part in the corporate governance process, they should be enabled to access requisite information.	Yes	The Company complies with this recommendation.

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: **operations and financial results of the company;** **objectives of the company;** **persons owning or controlling a block of shares of the company;** **members of supervisory and management bodies of the company and the head of the company as well as their remuneration;** **predictable key risks;** **the company's transactions with related parties as well as transactions concluded in other way than the usual course of business;** **main issues related to employees and other stakeholders;** **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	The Company discloses information referred to in the Recommendations in several ways: 1. publishes the information as notices of material events according to the procedure established in the laws (e.g. changes in the Company's management structure, election of new members of the management body, financial results of the Company etc.), 2. publishes the information in the Company's website (e.g. objectives of the Company), through OMX NASDAQ Vilnius and in the e-bulletin published by the Centre of Registers, 3. publishes the information in the Annual Report of the Company (e.g. members of management bodies, Head of the Company and his/her remuneration, expected key risks etc.). The Company publishes information on the consolidated results of the Group of companies (i.e. Lietuvos energija, AB and its subsidiaries).

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	The Company complies with this recommendation by disclosing information on the consolidated results of the Group of companies. Information related to the parent company (Visagino atominė elektrinė UAB) is published by the parent company itself.
10.3. In disclosing the information referred to in (4) of Item 10.1, 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.	Yes	Such information is presented in the Annual; Report of the Company (professional experience of the Head of the Company, participation in other companies by members of the management and supervisory bodies of the Company and remuneration to such members).
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.	Yes	Information on relations between the Company and its stakeholders is disclosed in the Annual Report. This information is also published, according to the procedure prescribed by the law, in press releases and the Company's website.
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/No	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 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 (newspapers, electronic publications, 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	The Company publishes all this information in its website.

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/No	An independent audit of the Company's annual financial statements and the Annual Report is conducted. A review (but not audit) of interim financial statements is carried out.
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	The Company complies with this recommendation.

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2012

Prepared according to International Financial Reporting Standards, as adopted by the European Union

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

ASSETS	Notes	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011 (restated)	Company at 31 December 2011 (restated)	Group at 31 December 2010 (restated)	Company at 31 December 2010 (restated)
Non-current assets							
Intangible assets	4	58,541	56,060	39,735	36,345	37,911	37,811
Property, plant and equipment	5	3,198,591	3,146,388	3,114,410	3,054,247	2,876,969	2,853,343
Prepayments for property, plant, equipment		14	14	2,769	2,769	43,737	43,737
Investment property	6	800	-	1,824	1,824	1,852	1,852
Investments in subsidiaries	7	-	54,651	-	54,651	-	23,897
Investments in associates and jodint ventures	7	153,496	155,427	146,966	151,648	162,719	160,836
Deferred income tax assets	23	622	-	81	-	1,200	-
Other non-current assets	8	23,723	23,723	9,657	9,657	18,547	18,547
Accounts receivable	11	10,927	10,927	1,426	1,426	1,797	8,297
Other financial assets		-	-	-	-	875	875
Total non-current assets		**3,446,714**	**3,447,190**	**3,316,868**	**3,312,567**	**3,145,607**	**3,149,195**
Current assets							
Inventories	9	63,636	61,427	125,537	123,721	127,908	126,209
Prepayments		2,348	1,489	2,936	1,909	13,108	12,051
Trade receivables	10	288,855	253,916	233,479	207,498	179,061	154,400
Otheraccounts receivable	11	23,793	23,549	7,007	12,648	20,941	20,127
Prepaid income tax		4,262	4,148	3,157	3,147	8,383	8,383
Other financial assets		20	-	267	-	243	-
Cash and cash equivalents	12	34,345	8,157	27,907	8,281	86,925	83,375
		417,259	**352,686**	**400,290**	**357,204**	**436,569**	**404,545**
Non-current assets classifiedas held for sale	13	603	-	3,283	1,543	4,166	1,543
Total current assets		**417,862**	**352,686**	**403,573**	**358,747**	**440,735**	**406,088**
TOTAL ASSETS		**3,864,576**	**3,799,876**	**3,720,441**	**3,671,314**	**3,586,342**	**3,555,283**

(Continued on the next page)

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

EQUITY AND LIABILITIES	Notes	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011 (restated)	Company at 31 December 2011 (restated)	Group at 31 December 2010 (restated)	Company at 31 December 2010 (restated)
Capital and reserves							
Share capital	14	635,084	635,084	635,084	635,084	635,084	635,084
Share premium	14	295,767	295,767	295,767	295,767	295,767	295,767
Revaluation reserve	15	12,055	7,774	13,735	8,395	8,583	6,604
Legal reserve	16	36,145	35,867	35,972	35,867	35,867	35,867
Other reserves	17	717,775	717,775	717,775	717,775	717,775	717,775
Retained earnings (deficit)		(30,037)	(10,572)	(67,183)	(44,656)	35,107	33,174
Total equity attributable to owners of the Company		**1,666,789**	**1,681,695**	**1,631,150**	**1,648,232**	**1,728,183**	**1,724,271**
Non-controlling interest		41,498	-	39,951	-	-	-
Total equity		**1,708,287**	**1,681,695**	**1,671,101**	**1,648,232**	**1,728,183**	**1,724,271**
Non-current liabilities							
Borrowings	19	552,370	544,098	247,006	247,006	94,018	94,018
Finance lease liabilities	20	44	-	319	-	851	-
Grants	21	1,100,461	1,100,461	1,008,569	1,008,569	872,957	872,957
Provisions for emission allowances		-	-	-	-	15,907	15,907
Other non-current accounts payable and liabilities	22	34,397	32,403	46,137	45,863	56,476	56,476
Deferred income tax liabilities	23	128,983	128,815	125,431	124,311	129,684	126,969
Total non-current liabilities		**1,816,255**	**1,805,777**	**1,427,462**	**1,425,749**	**1,169,893**	**1,166,327**
Current liabilities							
Borrowings	19	126,409	116,492	395,160	393,991	454,508	440,974
Finance lease liabilities	20	327	-	584	-	511	-
Trade payables	24	138,558	128,130	116,830	103,759	138,274	133,689
Advance amounts received	25	15,995	15,035	17,628	14,885	3,883	3,845
Income tax payable		545	-	1,787	-	1,405	490
Provisions for emission allowances	26	13,915	13,915	61,931	61,931	67,282	67,282
Other accounts payable and liabilities	27	44,285	38,832	27,958	22,767	22,403	18,405
Other current liabilities		**340,034**	**312,404**	**621,878**	**597,333**	**688,266**	**664,685**
Total liabilities		**2,156,289**	**2,118,181**	**2,049,340**	**2,023,082**	**1,858,159**	**1,831,012**
TOTAL EQUITY AND LIABILITIES		**3,864,576**	**3,799,876**	**3,720,441**	**3,671,314**	**3,586,342**	**3,555,283**

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 revenue	28	1,347,634	1,172,696	1,374,155	1,365,573
Other operating income	30	96,180	3,895	55,352	23,480
		1,443,814	**1,176,591**	**1,429,507**	**1,389,053**
Operating expenses					
Purchase of electricity and related services		(665,127)	(494,716)	(707,978)	(707,824)
Gas and heavy fuel expenses		(463,690)	(463,690)	(452,367)	(452,367)
Depreciation and amortisation	4,5,6,21	(78,928)	(64,870)	(60,513)	(57,763)
Wages and salaries and related expenses		(63,733)	(32,417)	(48,554)	(37,029)
Repair and maintenance expenses		(4,266)	(14,630)	(7,089)	(15,124)
Expenses of revaluation and provisions for emission allowances	4,21,26	(12,113)	(12,113)	(52,288)	(52,288)
Expenses of provision for onerous contract	26	(12,824)	(12,824)	(16,688)	(16,688)
Impairment of other non-current assets	8	(606)	(606)	(9,169)	(9,169)
Inventory write-down income /(expenses)	9	363	363	(1,631)	(1,631)
Impairment of investments in subsidiaries and associates	7	-	-	(916)	-
(Loss) on revaluation and impairment of property, plant and equipment / reversal	5	-	-	8,405	(281)
Other expenses		(87,235)	(29,837)	(67,558)	(23,743)
		(1,388,159)	**(1,125,340)**	**(1,416,346)**	**(1,373,907)**
OPERATING PROFIT		**55,655**	**51,251**	**13,161**	**15,146**
Finance income	31	2,236	4,776	1,362	2,358
Finance costs:					
Share of result of operations of associates and joint ventures	7	2,686	-	(6,048)	-
Other finance (costs)	32	(13,757)	(13,454)	(6,200)	(5,913)
		(8,835)	(8,678)	(10,886)	(3,555)
PROFIT BEFORE INCOME TAX		**46,820**	**42,573**	**2,275**	**11,591**
Current income tax expense	23	(6,066)	(4,606)	(5,594)	(3,891)
Deferred tax income / (expense)	23	(3,107)	(4,504)	4,845	3,056
		(9,173)	(9,110)	(749)	(835)
NET PROFIT FOR THE YEAR		**37,647**	**33,463**	**1,526**	**10,756**

(Continued on the next page)

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
Other comprehensive income (loss)					
Gain on revaluation of property, plant and equipment	5	(619)	-	6,590	2,653
Deferred income tax related to (gain) on revaluation of property, plant and equipment and impairment of investment property	23	93	-	(989)	(398)
Gain on revaluation of non-current assets of associates, net of deferred income tax	7	65	-	657	-
Other comprehensive income, net of deferred income tax		(461)	-	6,258	2,255
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**37,186**	**33,463**	**7,784**	**13,011**
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO:					
Owners of the Company		36,100	33,463	1,526	10,756
Non-controlling interests		1,547	-	-	-
		37,647	**33,463**	**1,526**	**10,756**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:					
Owners of the Company		35,639	33,463	7,784	13,011
Non-controlling interests		1,547	-	-	-
		37,186	**33,463**	**7,784**	**13,011**
Basic and diluted earnings per share (in LTL)	35	**0.06**		**0.00**	

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

Group	No-tes	Share capital	Share premium	Revalu-ation reserve	Legal reserve	Other reserves	Retained earnings (deficit)	Total	Non-contro-lling interests	Total equity
Balance at 31 December 2010		**635,084**	**295,767**	**8,583**	**35,867**	**717,775**	**35,107**	**1,728,183**	**-**	**1,728,183**
Acquisition of subsidiaries	7	-	-	-	-	-	(5,778)	(5,778)	31,957	26,179
Decrease in ownership interest in subsidiary not resulting in loss of control	7	-	-	-	-	-	(7,994)	(7,994)	7,994	-
Share of changes of associates and joint ventures recognised directly in equity	7	-	-	-	-	-	(2,346)	(2,346)	-	(2,346)
Formation of reserves	16	-	-	-	105	-	(105)	-	-	-
Depreciation of revaluation reserve	15	-	-	(800)	-	-	800	-	-	-
Other adjustments				351	-	-	-	351	-	351
Dividends paid	18	-	-	-	-	-	(89,050)	(89,050)	-	(89,050)
Comprehensive income		-	-	5,601	-	-	2,183	7,784	-	7,784
Balance at 31 December 2011		**635,084**	**295,767**	**13,735**	**35,972**	**717,775**	**(67,183)**	**1,631,150**	**39,951**	**1,671,101**
Depreciation of revaluation reserve	15	-	-	(1,154)	-	-	1,154	-	-	-
Formation of reserves	16	-	-	-	173	-	(173)	-	-	-
Comprehensive income		-	-	(526)	-	-	36,165	35,639	1,547	37,186
Balance at 31 December 2012		**635,084**	**295,767**	**12,055**	**36,145**	**717,775**	**(30,037)**	**1,666,789**	**41,498**	**1,708,287**

(Continued on the next page)

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

Company	Notes	Share capital	Share premium	Revaluation reserve	Legal reserve	Other reserves	Retained earnings (deficit)	Total equity
Balance at 1 January 2011		**635,084**	**295,767**	**6,604**	**35,867**	**717,775**	**33,174**	**1,724,271**
Depreciation of revaluation reserve	15	-	-	(464)	-	-	464	-
Dividends paid	18	-	-	-	-	-	(89,050)	(89,050)
Comprehensive income		-	-	2,255	-	-	10,756	13,011
Balance at 31 December 2011		**635,084**	**295,767**	**8,395**	**35,867**	**717,775**	**(44,656)**	**1,648,232**
Balance at 1 January 2012		**635,084**	**295,767**	**8,395**	**35,867**	**717,775**	**(44,656)**	**1,648,232**
Depreciation of revaluation reserve	15	-	-	(621)	-	-	621	-
Comprehensive income		-	-	-	-	-	33,463	33,463
Balance at 31 December 2012		**635,084**	**295,767**	**7,774**	**35,867**	**717,775**	**(10,572)**	**1,681,695**

(End)

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 At 31 December 2012	Company At 31 December 2012	Group At 31 December 2011	Company At 31 December 2011
Net profit for the year		**37,647**	**33,463**	**1,525**	**10,755**
Reversal of non-monetary expenses (income) and other adjustments					
Depreciation and amortisation expense	4,5,6	97,488	83,430	72,248	69,498
Loss on revaluation of property, plant and equipment	5	(619)	-	281	281
Impairment write-down of inventories / (reversal)	9	(457)	(457)	2,188	1,596
(Gain) on disposal of investments in subsidiaries and associates	30	-	-	-	(21,566)
Revaluation and provisions for emission allowances		24,937	24,937	52,286	52,286
Other impairments/(reversals)		5,566	3,445	-	1,403
Share of (profit) of associates and joint ventures		(2,686)	-	6,048	-
Income tax expense		6,066	4,606	5,604	3,891
Change in deferred income tax liability		3,107	4,504	(4,845)	(3,056)
(Income) from grants	4,21	(18,560)	(18,560)	(1,151)	(1,301)
(Decrease) in other provisions		20	20	22,160	27,511
Loss on write-off of non-current assets	5	140	308	767	267
Elimination of results of financing and investing activities:					
- Interest (income)	31	(550)	(724)	(996)	(988)
- Interest expense	32	9,148	8,971	3,223	3,078
- Other finance (income) costs		2,924	431	2,611	1,465
Changes in working capital				-	-
(Increase) decrease in trade receivables and other accounts receivable		2,338	12,802	(17,097)	(39,276)
(Increase) decrease in inventories and prepayments		62,611	62,837	14,172	11,034
Increase (decrease) in accounts payable and advance amounts received		(47,431)	(43,816)	(43,167)	(15,268)
Income tax (paid)		(6,736)	(5,607)	(9,434)	(8,230)
Net cash generated from operating activities		**174,953**	**170,590**	**106,423**	**93,380**
Cash flows from investing activities					
(Purchase) of property, plant and equipment and intangible assets		(195,195)	(190,511)	(181,114)	(198,757)
Disposal of property, plant and equipment and intangible assets		-	-	39,045	39,575
Loan repayments received		-	6,500	-	-
Term deposits		247	-	(24)	-
Grants received		22,015	22,015		
Dividends received		-	3,000	-	774
Interest received		231	90	955	947
Net cash (used in) investing activities		**(172,702)**	**(158,906)**	**(141,138)**	**(157,461)**
Cash flows from financing activities					
Proceeds from borrowings		11,726	-	138,149	145,436
Repayments of borrowings		(32,155)	(32,155)	(19,479)	(26,779)
Finance lease payments		(532)	-	(459)	-
Interest (paid)		(32,173)	(31,681)	(33,500)	(33,021)
Dividends (paid out)		(12)	(12)	(89,050)	(89,050)
Net cash (used in) financing activities		**(53,146)**	**(63,848)**	**(4,339)**	**(3,414)**
Net increase (decrease) in cash flows		**(50,895)**	**(52,164)**	**(39,054)**	**(67,495)**
Cash and cash equivalents at the beginning of the year		**21,349**	**2,893**	**60,403**	**70,388**
Cash and cash equivalents at end of the year		**(29,546)**	**(49,271)**	**21,349**	**2,893**

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

1 General information

Lietuvos Energija AB is a public limited liability company registered in the Republic of Lithuania. Lietuvos Energija AB (hereinafter referred to as the "Company") is a limited liability for-profit corporate entity, registered with the Register of Legal Entities managed by a public institution Centre of Registers. The Company's registration date is 21 July 2011, company code 302648707, VAT payer's code LT100006256115. The Company has been established for an unlimited period. The Company's registered office address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania.

Lietuvos Energija AB was established as a result of implementation of the National Energy Strategy, as a result of reorganisation by way of merger of the following two public companies: AB Lietuvos Energija, company code 220551550, including its branch offices Kruonis Pumped Storage Power Plant, Kaunas Hydro Power Plant, and AB Lietuvos Elektrinė, company code 110870933.

AB Lietuvos Energija AB and AB Lietuvos Elektrinė AB were reorganised by way of merger pursuant to paragraph 4 of Article 2.97 of the Lithuanian Civil Code by merging the companies under reorganisation, which ceased their activities as legal entities after the reorganisation, into new company Lietuvos Energija AB, which continues the activities of the reorganised companies after the reorganisation and to which all assets, rights and obligations of the companies under reorganisation were transferred, i.e. a new legal entity Lietuvos Energija AB was formed which continues its activities on the basis of companies which ceased their activities.

The assets, rights and obligations transferred were accounted for under the carrying value method. Assets and liabilities were not revalued at their fair values, but instead were recognised at their carrying amounts. The companies were merged with effect from 1 September 2010, i.e. the date on which AB Lietuvos Energija acquired control over AB Lietuvos Elektrinė.

The reorganisation was aimed at combining and optimising electricity generation capacities that are under the state's control by way of establishing a single electricity generation block. As a result, electricity generation activities were singled out and concentrated in one company, and electricity generation capacities were reorganised and centralised in order to ensure energetic independence of the Republic of Lithuania.

The authorised share capital of Lietuvos Energija AB amounts to LTL 635,083,615 and it is divided into 635,083,615 ordinary registered shares with par value of LTL 1 each. There were no changes in the Company's authorised share capital during 2012 and 2011. All the shares issued are fully paid. With effect from 1 September 2011, the shares of Lietuvos Energija AB were listed on the Main List of NASDAQ OMX Vilnius Stock Exchange. As at 31 December 2012 and 2011, the Company had not acquired its own shares.

In 2012, the Company was engaged in electricity generation, electricity trading and export activities. In addition to these principal activities, the Company is free to be engaged in any other business activities not forbidden under the laws and stipulated in the Company's Articles of Association.

The Company has permits of unlimited validity to engage in electricity generation activities at the Reserve Power Plant and Combined Cycle block (kereinafter referred to as the Reserve Power Plant), Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant, as well as in electricity import and export activities. The Company also holds permits to expand electricity generation capacities at the Reserve Power Plant and Kruonis Pumped Storage Power Plant, and certificates entitling to engage in maintenance and operation of electric, thermal power, natural gas and oil facilities. On 29 July 2011, based on the decision of the National Control Commission for Prices and Energy, Lietuvos Energija AB obtained a licence of an independent electricity supplier. The Company's subsidiary Energijos Tiekimas UAB also holds a licence of an independent electricity supplier.

As of the date of preparation of these financial statements, the Company directly participated (had control or significant influence) in the management of the following companies: Kauno Energetikos Remontas UAB (Lithuania), Energijos Tiekimas UAB (Lithuania), Technologijų ir Inovacijų Centras UAB (Lithuania), Nordic Energy Link AS (Estonia), Geoterma UAB (Lithuania), NT Valdos UAB (Lithuania). Indirectly, the Company had the majority of votes in Gotlitas UAB (Lithuania) through Kauno Energetikos Remontas UAB, and the majority of votes in VŠĮ Respublikinis Energetikų Mokymo Centras (Lithuania) through Technologijų ir Inovacijų Centras UAB, and exercised significant influence over Enmašas UAB (Lithuania). More detailed information about subsidiaries, associates and joint ventures and their changes during 2012 is disclosed in Note 7.

The consolidated financial statements of Lietuvos Energija AB and its subsidiaries and the stand-alone financial statements of Lietuvos Energija AB as a parent company are presented in these financial statements.

1 General information (continued)

As at 31 December 2012, the Group comprised Lietuvos Energija AB and the following directly and indirectly controlled subsidiaries:

Company	Company's registered office address	Group's ownership interest at 31 December 2012	Subsidiary's share capital at 31 December 2012	Profit (loss) for 2012	Equity at 31 December 2012	Profile of activities
Kauno Energetikos Remontas UAB	Chemijos g. 17, Kaunas, Lithuania	100%	14,245	679	21,343	Repair of energy equipment, production of metal constructions
Gotlitas UAB (controlled through Kauno Energetikos Remontas UAB)	R.Kalantos g. 119, Kaunas, Lithuania	100%	1,100	(115)	1,435	Accommodation services, trade
Energijos Tiekimas UAB	Žvejų g. 14, Vilnius, Lithuania	100%	750	573	7,415	Independent electricity supply
Technologijų ir Inovacijų Centras UAB*	Juozapavičiaus g. 13, Vilnius, Lithuania	54.04%	76,513	3,634	57,163	IT services
VŠĮ Respublikinis Energetikų Mokymo Centras (controlled through Technologijų ir Inovacijų Centras UAB)	Jeruzalės g. 21, Vilnius, Lithuania	54.04%	294	(270)	(1,406)	Professional development of energy specialists and continual professional training

*On 31 October 2012, Data Logistics Center UAB was reorganised by way of reorganisation defined in paragraph 3 of Art.2.97 of the Lithuanian Civil Code. Data Logistics Center UAB was merged with Technologijų ir Inovacijų Centras UAB and ceased its activities following the reorganisation. The assets, rights and obligations of Data Logistics Center UAB were transferred to Technologijų ir Inovacijų Centras UAB, which continued its activities following the reorganisation.

1 General information (continued)

As at 31 December 2011, the Group comprised Lietuvos Energija AB and the following directly and indirectly controlled subsidiaries:

Company	Company's registered office address	Group's ownership interest at 31 December 2011	Subsidiary's share capital at 31 December 2011	Profit (loss) for 2011	Equity at 31 December 2011	Profile of activities
Kauno Energetikos Remontas UAB	Chemijos g. 17, Kaunas, Lithuania	100%	14,245	1,705	21,190	Repair of energy equipment, production of metal constructions
Gotlitas UAB (controlled through Kauno Energetikos Remontas UAB)	R.Kalantos g. 119, Kaunas, Lithuania	100%	1,100	67	1,614	Accommodation services, trade
Energijos Tiekimas UAB	Žvejų g. 14, Vilnius, Lithuania	100%	750	4,901	9,842	Independent electricity supply
Technologijų ir Inovacijų Centras UAB	Juozapavičiaus g. 13, Vilnius, Lithuania	54.04%	76,513	-*	70,669	IT services
Data Logistics Center UAB (controlled through Technologijų ir Inovacijų Centras UAB)	Juozapavičiaus g. 13, Vilnius, Lithuania	54.04%	12,847	4,427	17,392	IT services
VŠĮ Respublikinis Energetikų Mokymo Centras (controlled through Technologijų ir Inovacijų Centras UAB)	Jeruzalės g. 21, Vilnius, Lithuania	54.04%	294	-*	(1,136)	Professional development of energy specialists and continual professional training

*The Group acquired control over the subsidiaries Technologijų ir Inovacijų Centras UAB and VŠĮ Respublikinis Energetikų Mokymo Centras with effect from 31 December 2011, therefore, the results of operation of these companies for the year 2011 were not presented.

As at 31 December 2012, the Group had 1,180 (31 December 2011: 1,179) employees. As at 31 December 2012, the Company had 511 (31 December 2011: 509) employees.

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

2 Accounting policies

Presented below are the principal accounting policies adopted in the preparation of the Group's and the Company's financial statements for the year 2012.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (the "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 losses (Note 2.7), emission allowances (Note 2.11) and financial instruments measured at fair value (Note 2.12).

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

2.2 Changes in accounting policies

Accounting policies applied in preparation of the financial statements are consistent with those of the previous financial year except as follows:

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

There are no IFRSs or IFRIC interpretations that are mandatory for the first time for the annual accounting periods beginning on or after 1 January 2012 that would have a material impact on the Group/Company.

The following new or amended IFRS and IFRIC interpretations are effective in 2012 but not relevant to the Company and the Group:

Amendments to existing standards and interpretations adopted by the EU that are mandatory for annual accounting periods beginning on or after 1 January 2012 but not relevant to the Group/Company are as follows:

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2012). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment had no impact on the financial statements of the Group/Company.

Standards, interpretations and their amendments that are not yet effective and have not been early adopted by the Company and the Group

IFRS 10, Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group/Company is currently assessing the impact of the new standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, *Consolidated financial statements*, and IFRS 11, *Joint arrangements,* and replaces the disclosure requirements currently found in IAS 28, *Investments in associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group/Company is currently assessing the impact of the new standard on its financial statements.

2 Accounting policies (continued)

2.2 Changes in accounting policies (continued)

IFRS 13, Fair value measurement, (effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group/Company is currently assessing the impact of the standard on its financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group/Company is currently assessing the impact of the amended standard on its 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 Standard was replaced by IFRS 11 and requires accounting for joint ventures and associates using the equity method. The Group/Company does not expect the standard to have any material impact on the financial statements.

Amended IAS 19, Employee Benefits (effective for annual periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group/Company is currently assessing the impact of the amended standard on its financial statements.

Presentation of Items of Other Comprehensive Income, amendments to IAS 1 (effective for annual periods beginning on or after 1 July 2012). The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group/Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group/Company does not expect the amended standard to have any 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 amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

There are no other new or amended standards and interpretations that are not yet effective and that may have a material impact for the Group/Company.

2.3 Consolidation

The consolidated financial statements of the Group include Lietuvos Energija 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 and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies are eliminated. For the purpose of preparation of the Group's consolidated financial statements, total comprehensive income of subsidiaries was attributed to owners of the parent company from the date when effective control was transferred to the Company.

2 *Accounting policies (continued)*

2.4 Business combinations

Acquisition of subsidiaries, except for acquisitions between jointly controlled companies, is accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group on the date of acquisition.

All acquisition-related costs are expensed when incurred. The acquiree's identifiable assets acquired, liabilities and contingent liabilities are recognised at their fair values at the acquisition date. On each acquisition, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

IFRS 3, 'Business combinations' is not applied to business combinations between jointly controlled entities, therefore, such business combinations were accounted for using the merger method. The Group did not recognise assets and liabilities at their fair values at the acquisition date, instead the Group combined the acquired assets and liabilities at their carrying amounts. Under the merger method, no additional goodwill arises and the results of the acquiree have been recognised in the consolidated financial statements since the date of acquisition.

The Group applies a policy of treating transactions with non-controlling interests as transactions with the equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.5 Investments in subsidiaries (the Company)

Subsidiary is an entity directly or indirectly controlled by a parent company and in which a parent company has a shareholding of more than one half of the voting rights. 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. Cost also includes directly attributable expenditure.

2.6 Investments in associates and joint ventures

An associate is an entity over which the Group/Company has significant influence and that is neither a subsidiary nor a joint venture. 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. The Group has investment in a joint venture, which is an entity of joint operations, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity.

In the parent company's statement of financial position investments in associates and joint ventures 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.

In the consolidated financial statements of the Group, results of operation of associates and joint ventures are accounted at equity method, except when the investment is classified as held-for-sale and it is recognised according to IFRS 5 *Non-current assets held for sale and discontinued operations*. Under the equity method, investments in associates or joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the investee, less any impairment in the value of individual investments. The Group's share of post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income.

Losses of an associate or joint venture in excess of the Group's share of assets in that associate/joint ventures are not recognised, unless the Group had incurred legal or indirect obligations or made payments on behalf of the associate/joint venture.

Any excess of the cost of acquisition over the fair value of the Group's share of net identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the fair value of the Group's share of net identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the statement of comprehensive income.

Where the Group company conducts transactions with an associate/joint venture of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the relevant entity.

2 *Accounting policies (continued)*

2.6 Investments in associates and joint ventures (continued)

Financial guarantees provided for the liabilities of the associates are initially recognised as an investment in associates at estimated fair value and as a financial liability in the statement of financial position. The fair value is estimated as the difference between the fair value of the liability secured with guarantee and the fair value of analogous liability not secured with guarantee. Subsequent to initial recognition, this financial liability is amortised and recognised as income depending on the related amortisation / repayment of the associate's financial liability to the bank. If there are indications that the associate may fail to fulfil its obligations to the bank, a financial liability of the Company is accounted for at the higher of amortised value and the value estimated according to IAS 37, 'Provisions, contingent liabilities and contingent assets'.

2.7 Property, plant and equipment and intangible assets

<u>Property, plant, and equipment</u>

Assets with the useful life over one year are classified as property, plant and equipment.

In Property, plant and equipment the categories of assets of hydro power plant, pumped storage power plant and Reserve power plant, is accounted for at cost less accumulated depreciation and impairment. Other 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 property, plant and equipment under construction. The cost of such assets includes designing, construction works, equipment provided for installation, and other directly attributable costs.

<u>Intangible assets</u>

Intangible assets acquired separately are measured on initial recognition at acquisition cost. Cost of intangible assets acquired through business combinations is its fair value at acquisition date. Intangible assets are recognised if there is evidence that the Group/Company will receive economic benefits related to these assets, and its value can be reliably estimated.

Subsequent to initial recognition, intangible assets, except for emission rights (see Note 2.11) are carried at cost less any accumulated amortisation and accumulated impairment losses, if any (the Group/Company does not have intangible assets with indefinite useful lives).

<u>Depreciation and amortisation</u>

Depreciation (amortisation) of property, plant and equipment and intangible assets, except construction in progress, is calculated using the straight-line method over estimated useful lives of the 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. As at 31 December 2008, depreciation (amortisation) rates of property, plant and equipment and intangible assets were adjusted in view of the remaining useful lives. In 2012, the depreciation rates were reviewed and adjusted for the items of assets included in the category of Other property, plant and equipment belonging to the Reserve Power Plant (note 3).

2 *Accounting policies (continued)*

2.7 Property, plant and equipment and intangible assets (continued)

Estimated useful lives of property, plant and equipment and intangible assets are as follows

Property, plant and equipment and intangible assets	Useful lives (in years)
Buildings	20 - 75
Structures and equipment	
- electricity and communication devices	20 - 25
- electricity equipment	15 - 35
- other equipment	5 - 20
Structures and equipment of Hydro Power Plant and Pumped Storage Plant	
- hydro technical waterway structures and equipment	75
- pressure pipelines	50
- hydro technical turbines	25 - 40
- other equipment	8 - 15
Structures and equipment of Reserve Power Plant	
- constructions and infrastructure	10 - 70
- thermal and electricity equipment	10- 60
- measuring devices and equipment	5 - 30
- other equipment and tools	8 - 15
Motor vehicles	4 - 10
Other property, plant and equipment:	5 - 40
- computer hardware and communication equipment	3 - 10
- inventory, tools	4 - 10
Intangible assets	3 - 4

Average useful lives of newly acquired property, plant and equipment, which are highly important for the principal activities of the Group/Company, are as follows:

	Average useful lives (years)
330, 110, 35 Kv electricity transmission lines	40
330, 110, 35, 6-10 Kv electricity distribution equipment	40
330, 110, 35, 6-10 Kv capacity transformers	35-40
Relay security and automation equipment	10-35
Technological and dispatch control equipment	8-15

Property, plant and equipment acquired under finance lease are depreciated over their estimated useful life on the same basis as owned assets.

Gain or loss on disposal of non-current assets is calculated as the difference between the proceeds received from sale and the carrying 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 these costs will flow to the Group and the Company and the costs 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.

Spare parts of high value that can be used only in combination with specific item of property, plant and equipment are accounted for as property, plant and equipment. Spare parts are carried at acquisition cost, less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis over the estimated useful life of the related item of property, plant and equipment.

2.8 Impairment of property, plant and equipment, intangible assets and other non-current assets

At each reporting date, the Group and the Company review the carrying amounts of its property, plant and equipment, intangible assets and other non-current assets to determine whether there is any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the Group and the Company estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, administrative assets of the Group and the Company are allocated to individual cash-generating units, otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. The recoverable amount of other non-current assets (right to receive emission allowances) is determined with reference to market prices of forward or spot transactions in emission allowances.

2 *Accounting policies (continued)*

2.8 Impairment of property, plant and equipment, intangible assets and other non-current assets (continued)

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 sum of previous value impairment) as described in Note 2.7.

2.9 Investment property

Investment property of the Group/Company, which consists of investments in buildings, is held to earn rentals or for capital appreciation. Investment property is initially recognised at acquisition cost, including transaction costs. Subsequently all investment property is carried at cost less accumulated depreciation and impairment. Investment property is depreciated using the same depreciation calculation methods and periods as those applied to property, plant and equipment.

Transfers to and from investment property are made only when there is an evidence of change in the purpose of use of assets. Certain immovable property may be occupied by the Company/Group, with the remainder being held for rental yields or for capital appreciation. If part of immovable property occupied by the Company/Group can be sold separately, the Company/Group accounts for such property separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held to earn rentals or for capital appreciation or both is treated as investment property under IAS 40.

2.10 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.

2.11 Emission allowances

Based on the EU Directive 2003/07/EC, the greenhouse gas emissions trading scheme was developed which came into force on 1 January 2005. The first period of operation of this scheme covered 3 years from 2005 to 2007; the second period of operation covered 5 years from 2008 to 2012; and the third period of operation covers 7 years from 2013 to 2020. The system's period of operation is in line with the period established under the Kyoto Agreement. The system functions on cap and trade basis. The governments of the EU Member States are required to set caps for each emission unit in the scheme and for the period of implementation. These caps are specified in the National Allocation Plan to be developed by a responsible authority of each Member State (in Lithuania – the Ministry of Environment). The National Allocation Plan determines the annual emission amount (measured as tons of carbon dioxide equivalent) for each emission unit and each period and allocates annual emission allowances.

Business entities involved in the trading scheme of emission allowances are entitled throughout the period from 2008 to 2020 to use emission reduction units that are accepted in the EU trading scheme of emission allowances, but not in excess of 20% of total quantity of emission allowances allocated to them during the period from 2008 to 2012.

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

A Member State is to assure that an operator of each emission unit will submit data on the unit's actual amount of greenhouse gas emissions during the current calendar year not later than by 30 April of the next year.

<u>Intangible assets</u>
The EU emission allowances are treated as intangible assets that were provided by the state in the form of non-monetary grant and that should be accounted for at fair value at the moment of their issuance or transfer.

2 Accounting policies (continued)

2.11 Emission allowances (continued)

After the initial recognition emission allowances are revalued at fair value using the active market prices. Increases in the carrying amount arising on the revaluation of emission allowances are credited against revaluation reserve directly to equity and decreases in excess of the previously accumulated amount in the revaluation reserve are recognised in the profit and loss account. On realisation of emission allowances, the respective positive balance of the revaluation reserve is taken directly to retained earnings.

<u>Government grant</u>
The EU emission allowances provided to the Company free of charge are treated as a non-monetary government grant which is recognised at fair value at the date of its receipt or issuance. Subsequently, the government grant is recognised as income in proportion to emission allowances utilised during the validity period of emission allowances or upon their disposal.

<u>Provision for utilisation of emission allowances</u>
As the Company makes emissions, a liability arises to pay for these emissions to the state using emission allowances, the nominal value of which is equal to the quantity of emissions. Such liability is a provision which is estimated at a value equal to expenses to be incurred for the settlement of this liability at the date of the preparation of the statement of financial position. The liability can be offset against intangible assets only when the actual quantity of emissions is approved by an appropriate regulatory state authority. Changes in the value of liability are recognised in profit or loss and presented in the statement of comprehensive income.

<u>Lending of emission allowances</u>
Lending of emission allowances is a sale transaction during which assets is disposed and the right to receive emission allowances is acquired. The right to receive emission allowances is recognised as other non-current assets. Such assets are initially recognised at acquisition cost, and subsequently such assets are tested for impairment as described in Note 2.8.

2.12 Financial assets

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

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

The Group's/Company's financial assets include cash, trade and other accounts receivable, loans and investments in derivatives and are classified into two categories: financial assets at fair value through profit or loss and loans and receivables.

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

<u>Financial assets at fair value through profit or loss</u>

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

<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.

<u>Effective interest rate method</u>

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

Accounting policies (continued)

2.12 Financial assets (continued)

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 debtor 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 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 identified as uncollectible.

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

Where the Group/Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained the risks and rewards of ownership of asset nor transferred control of the asset, the asset is recognised to the extent of the Group's/Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group/Company could be required to repay.

2.13 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 using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price, less the estimated costs of completion, marketing and selling expenses.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks, demand deposits and other highly liquid investments (up to 3 months original maturity) that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are recognised in the statement of financial position as current borrowings.

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

2 *Accounting policies (continued)*

2.15 Financial liabilities and equity instruments issued by the Group and the Company

Recognition of instruments as debt or equity instruments

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

Equity instruments

Equity instrument is any contract that evidences an interest in the assets of the Group and the Company after deducting all of its liabilities. Equity instruments are recorded at the value of the proceeds received net of direct issue costs. Share premium represent the difference between the nominal value of shares and the proceeds received.

Financial liabilities

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

Other financial liabilities

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

After initial recognition, other financial liabilities are measured at amortised cost using the effective interest rate method. Interest expenses are recognised using the effective interest rate method (see Note 2.12).

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

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

Derecognition of financial liabilities

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

2.16 Foreign currency

Foreign currency transactions are accounted for in the litas using the exchange rate announced by the Bank of Lithuania on the dates of transaction, which approximate market exchange rates. Monetary assets and liabilities are translated into the litas using the exchange rate prevailing at the balance sheet date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities into the litas are recognised in the statement of comprehensive income of the reporting period.

With effect from 2 February 2002, the Lithuanian litas has been pegged to the euro at the rate of LTL 3.4528 to EUR 1, and the exchange rates of the litas against other currencies are set daily by the Bank of Lithuania. The exchange rates used for principal currencies were as follows:

At 31 December 2012			At 31 December 2011		
LVL 1	=	LTL 4.9520	LVL 1	=	LTL 4.9421
RUB 100	=	LTL 8.5879	RUB 100	=	LTL 8.3334
SEK 10	=	LTL 4.0042	SEK 10	=	LTL 3.8600
USD 1	=	LTL 2.6060	USD 1	=	LTL 2.6694

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, financial performance results and financial position of each of the Group‘s entities are presented in the litas, which is the functional currency of the Company and the presentation currency of the Group‘s consolidated financial statements.

2 *Accounting policies (continued)*

2.16 Foreign currency (continued)

When preparing separate financial statements of the Group companies, transactions denominated in currencies other than the functional currency of the company (in foreign currencies) are carried using exchange rates prevailing at the dates of transactions. At each balance sheet date monetary items denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date. Non-monetary items measured at fair value and denominated in foreign currency are translated using the exchange rate prevailing at the date when the fair value was determined. Non-monetary items carried at cost and denominated in foreign currency are not translated.
The assets and liabilities (including comparative figures) of foreign subsidiaries are translated into the litas for the preparation of consolidated financial statements using the exchange rate prevailing at the balance sheet date. Income and expenses (including comparative figures) are translated into the litas using the average exchange rate of the period, unless there were significant fluctuations of the exchange rate during the reporting period in which case an exchange rate prevailing at the date of the transaction is applied. Currency exchange rate differences, if any, are recognised under foreign currency translation reserve in equity. These changes in foreign exchange rates are recognised in the statement of comprehensive income in the period in which the foreign subsidiary is disposed.

2.17 Grants

Asset-related grants
Asset-related government and the European Union grants and third party compensations comprise grants received in the form of non-current assets or intended for the acquisition of non-current assets. Grants are initially recognised at fair value of the asset received and subsequently accounted for in the statement of comprehensive income by reducing the depreciation charge of related asset over the expected useful life of the asset.

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

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

Provisions for pension benefits
Pursuant to the Lithuanian laws, each employee who terminates employment at retirement age is entitled to receive a payment of 2 monthly salaries upon retirement. Actuarial calculations are made to determine liability for this pension benefit. The liability is recognised at present value, which is discounted using the market interest rate.

Provisions for onerous contract
Provisions for onerous contract represent liabilities that are initially recognised at fair value and subsequently at the end of each reporting period they are measured at present value using the effective interest rate method.

2 *Accounting policies (continued)*

2.19 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.

2.20 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

<u>The Group and the Company are lessors</u>

Operating lease income is recognised on a straight-line basis over the lease term.

<u>Finance lease – where the Company and the Group are lessees</u>

The Group and the Company account for finance leases as assets and liabilities in the balance sheet at the lower of the fair value of assets leased on the commencement of lease and the present value of minimum finance lease payments.
The present value of minimum lease payments is determined using a discount rate equal to interest rate charged on lease payments, if possible to distinguish, otherwise general interest rate on the Company's borrowings is used. Direct initial costs are added to the value of assets. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated. In addition, as a result of finance lease, the Group's and the Company's finance costs are increased each reporting period in the statement of comprehensive income. The calculation of depreciation for assets acquired under finance lease is analogous to that used for own assets, however, such assets cannot be depreciated over a period longer than the lease period, provided that the ownership is not transferred to the Group or the Company at the end of the validity term of the finance lease contract.

When the outcome of sale or leaseback transaction is finance lease, any gain on sale in excess of the carrying amount is not recognised as income immediately and rather it is deferred and amortised over the period of finance lease.

<u>Operating lease – where the Company and the Group are lessees</u>

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

Total benefit of lease incentives provided by the lessor is recognised as a reduction of lease expenses over the lease period on a straight-line basis.

When the outcome of sale or leaseback transaction is operating lease and it is obvious that the transaction has been concluded at fair value, any gain or loss is recognised immediately. When the selling price is lower than the fair value, any gain or loss is recognised immediately, except for cases when losses are covered by lease payments lower than market prices in future, in which case they are deferred and amortised in proportion to lease payments over the period during which the asset is expected to be used. When the selling price is higher than the fair value, the excess amount is deferred and amortised over the period during which the asset is expected to be used.

2 *Accounting policies (continued)*

2.21 Segment information

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

2.22 Income 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, returns of goods and discounts. The following specific recognition criteria must also be met before revenue is recognised:

<u>Revenue from sale of electricity</u>

Revenue from sale of electricity acquired at power exchange, electricity export and revenue from public service obligations (PSO) services is recognised when substantially all risks and rewards related to the object of sale have been transferred to the buyer. The Company does not recognise revenue and expenses from electricity trading in the power exchange with respect to those transaction in which it acts as an agent.

<u>Revenue from electricity-related services</u>

Revenue from electricity transmission and other electricity-related services is recognised after the service is rendered.

Tariff regulation

Tariffs for the electricity transmission and PSO services are regulated by the National Control Commission for Prices and Energy (hereinafter "the Commission") by establishing the upper limit of the tariff. Specific prices for the transmission and PSO 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 which case, the procedure for tariff setting is established by the Commission.

Tariffs for import and export of electricity are not regulated.

In providing PSO services the Group earns income and incurs expenses. PSO service fees are the fees paid to the suppliers of electricity under public service obligations scheme (based on pre-set annual quantities and prices of services). Subsequently, these services are provided to the distribution system operators and electricity consumers using a tariff established by the Commission. If at the end of the calendar year, PSO service fees collected by the Company from electricity consumers and the distribution system operators exceed or are less than the actual PSO service fees paid to the suppliers of these services, the difference needs to be taken into account by the transmission system operator in assessing the component of the price for PSO services for the next year.

2 *Accounting policies (continued)*

2.22 Revenue and expense recognition (continued)

Revenue from repair services

Revenue from individual contracts/projects with customers, i.e. repair services, is recognised based on the proportion of the work completed, which is estimated by comparing actually incurred costs on the project with the project's total estimated cost. Expected change in the profitability is accounted for in the statement of comprehensive income when such change is determined. Projects are reviewed periodically and if determined that a contract will be onerous, respective provisions are accounted for.

Other operating income

Interest income is recognised by the accruals method considering the outstanding balance of debt and the effective interest rate. Interest income is recorded in the statement of cash flows as cash flows from investing activities.

Dividend income is recognised after the shareholders' rights to receive payment have been established. Dividends received are recorded in the statement of cash flows as cash flows from investing activities. Dividends of subsidiaries, attributable to the parent company, are eliminated in the consolidated financial statements.

Income and expenses related to the IT services provided by the Group and the Company, resort buildings owned by the Group and the Company and sales and lease of non-current assets are accounted as other operating income and expenses.

Recognition of expenses

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

2.23 Borrowing costs

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

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

2.24 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 assets and liabilities are not recognised when temporary differences arise from goodwill (or negative goodwill) or 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.

2. Accounting policies (continued)

2.24 Income tax (continued)

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, in which case taxes are also recorded in equity.

2.25 Earnings per share

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

As at 31 December 2012 and 31 December 2011, the weighted average number of shares, based on which the earnings per share are calculated was 635,083,615. As at 31 December 2012 and 31 December 2011 and during the periods then ended, the Company had no dilutive options, therefore, its basic and diluted earnings per share are the same.

2.26 Contingencies

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

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

2.27 Events after the end of the reporting period

Subsequent events that provide additional information about the Group's and the Company's position at the reporting date (adjusting events) are disclosed in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when their effect is material.

2.28 Related parties

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

2.29 Inter-company offsetting

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

2.30 Changes in disclosure of comparative information on operating segments

As at 31 December 2011, the Board analysed the operations of the Company as a single segment of electricity production and trade, including the segment of electricity export/import. The operations of Energijos Tiekimas UAB representing trade in electricity also constituted a separate segment. Other activities within the Group included repair services of energy facilities and IT services.

With effect from 2012, the board started analysing the operations in terms of profitability of the regulated activities and the commercial activities of the Company. The regulated activities include the Reserve Power Plant's revenue from heat and electricity production, balancing and regulation, capacity reserve provision, including capacity reserve revenue of Kruonis Pumped Storage Power Plant. The commercial activities include electricity trade in a free market, export/import, electricity production at Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant, and the related balancing and regulation services. Administrative expenses are allocated between the regulated activities and the commercial activities based on operating expenses, headcount and sales. The operations of Energijos Tiekimas UAB representing electricity supply constitute a separate segment. Other activities within the Group included repair services of energy facilities and IT services.
Changes were made in disclosure of comparative information on operating segments in view of how the board analysed the Group's operations in 2012 (Note 29).

2.31 Restatement of comparative figures on reclassification of non-current borrowings

When preparing the financial statements of Lietuvos Energija AB for the year 2012, the following adjustments were made to comparative figures for 2011 in relation to reclassification of non-current borrowings from non-current accounts payable to current accounts payable. The reclassification of borrowings was performed as a result of non-compliance with the financial and non-financial covenants stipulated in loan agreements. See Note 19 for further details.

The effect of reclassification on the Group's liabilities as of 31 December 2011 is summarised below:

	At 31 December 2011	Reclassification of borrowings	At 31 December 2011 (restated)
Non-current liabilities			
Borrowings	602,258	(355,252)	247,006
Current liabilities			
Borrowings	39,908	355,252	395,160
TOTAL BORROWINGS	**642,166**	**-**	**642,166**

The effect of reclassification on the Group's liabilities as of 31 December 2010 is summarised below:

	At 31 December 2010	Reclassification of borrowings	At 31 December 2010 (restated)
Non-current liabilities			
Borrowings	503,164	(409,146)	94,018
Current liabilities			
Borrowings	45,362	409,146	454,508
TOTAL BORROWINGS	**548,526**	**-**	**548,526**

The effect of reclassification on the Company's liabilities as of 31 December 2011 is summarised below:

	At 31 December 2011	Reclassification of borrowings	At 31 December 2011 (restated)
Non-current liabilities			
Borrowings	602,258	(355,252)	247,006
Current liabilities			
Borrowings	38,739	355,252	393,991
TOTAL BORROWINGS	**640,997**	**-**	**640,997**

The effect of reclassification on the Company's liabilities as of 31 December 2010 is summarised below:

	At 31 December 2010	Reclassification of borrowings	At 31 December 2010 (restated)
Non-current liabilities			
Borrowings	503,164	(409,146)	94,018
Current liabilities			
Borrowings	31,828	409,146	440,974
TOTAL BORROWINGS	**534,992**	**-**	**534,992**

2.31 Restatement of comparative figures on reclassification of non-current borrowings (continued)

As a result of reclassification of borrowings, there occurred changes in liquidity ratios of the Company and the Group as of 31 December 2011:

Ratio	**Company**		**Group**	
	As previously reported	After reclassification	As previously reported	After reclassification
Current liquidity ratio	1.48	0.60	1.50	0.65
Quick liquidity ratio	0.96	0.39	1.03	0.45

As a result of reclassification of borrowings, there occurred changes in liquidity ratios of the Company and the Group as of 31 December 2010:

Ratio	**Company**		**Group**	
	As previously reported	After reclassification	As previously reported	After reclassification
Current liquidity ratio	1.58	0.61	1.57	0.64
Quick liquidity ratio	1.10	0.42	1.54	0.45

2. Accounting policies (continued)

3 Critical accounting estimates and uncertainties

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 areas where estimates are significant to these financial statements include fair value evaluation and depreciation of property, plant and equipment (Notes 5 and 6), evaluation of impairment for accounts receivable and investments (Notes 7, 8 and 10, 11), valuation of inventory at net realisable value (Note 9), estimation of provisions for emission allowances (Note 26), percentage of completion evaluation for repair service contracts (Note 30) and disclosure of contingent liabilities (Note 37). Future events may cause the assumptions used in arriving at the estimates to change. The effect of such changes in the estimates will be recorded in the financial statements when determined.

Tax audits

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

Depreciation rates of property, plant and equipment

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.

In 2012, the Company reviewed the depreciation rates of its property, plant and equipment. As a result, the depreciation rates were adjusted for items of assets included in the category of Other property, plant and equipment belonging to the Reserve Power Plant as follows:

Description of assets	**Depreciation rates after adjustment**	**Depreciation rates before adjustment**
PCs, computer networks and hardware	4	8
Remote video monitoring systems, entrance control systems	8	10
Communication equipment	4	10
Tools	5	15
Furniture	7	15

Revaluation of property, plant and equipment

No independent valuation was performed for the Company's and the Group's assets stated at revalued amounts as of 31 December 2012, because in the management's opinion, the fair value of assets did not significantly differ from its carrying amount.

On 31 December 2011 an independent property valuer Census Optimus UAB determined the market value of the Company's assets stated at revalued amount. The valuation was performed using the replacement cost method.

On 31 December 2011, revaluation was carried out for property, plant and equipment of the Company's subsidiary Kauno Energetikos Remontas UAB. Property, plant and equipment were revaluated on 31 December 2011 based on the report submitted by an independent property valuer Latmas Nekilnojamasis Turtas UAB on changes in the fair values of immovable property in Lithuania by region. This report was based on observable market evidence on prices of immovable property.

In October 2010, independent property valuers carried out the revaluation of non-current assets which were transferred as in-kind contribution to the share capital of subsidiaries and associates. Considering the date of the last revaluation of these assets and the periods of their acquisition, in the opinion of management, the fair value of the Group's property, plant and equipment stated at revalued amount and not revaluated in 2011 did not significantly differ from its carrying amount as at 31 December 2011.

3 Critical accounting estimates and uncertainties (continued)

Impairment of property, plant and equipment

The Group and the Company make an assessment, at least annually, whether there are any indications that the carrying amount of property, plant and equipment has been impaired. If that is the case, the Group and the Company make an impairment test in accordance with the accounting policy set out in Note 2.

In 2012 and 2011, the Group and the Company accounted for property, plant and equipment (except for assets of the Hydro Power Plant, Pumped Storage Power Plant and Reserve Power Plant) at fair value in accordance with International Accounting Standard No.16 'Property, plant and equipment'.

As of 31 December 2012 and 2011, the management of Lietuvos Energija AB tested for impairment the property, plant and equipment of Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant and did not identify any impairment indications.

As of 31 December 2011 and 2010, the Company did not assess the impairment for the Reserve Power Plant (with the carrying amounts of LTL 2,494m and LTL 2,270m, respectively) due to regulatory legislation uncertainties outstanding as of 31 December 2011 in relation to electricity tariffs and changes therein, the regulated profit margins and outputs. According to the Description of PSO Services effective as of 31 December 2011, the producers of electricity were paid PSO service fees based on the actual electricity output per year subject to support and according to the fixed buy-out prices. As of 31 December 2012, impairment test was carried out and the estimated recoverable amount of the Reserve Power Plant exceeded the carrying amount of LTL 2,612m, hence no impairment charge was recognised. The recoverable amount of these assets increased in 2012 as a result of introduction of Resolution No. O3-229 of the National Control Commission for Prices and Energy on 14 September 2012.

In accordance with the accounting policies described in Note 2.8, the property, plant and equipment of the Reserve Power Plant was tested for impairment as of 31 December 2012.

The Reserve Power Plant is treated as a single cash generating unit based on the following:

- The transmission system operator treats each power plant (including the Reserve Power Plant) as a single generating unit irrespective of the number of individual units that constitute the power plant.
- All units of the Reserve Power Plant can be used for both, electricity generation and for the provision of capacity reserve services. The situation of which unit at a specific moment is used for electricity generation or launching of capacity reserve depends on the system's needs, the technical condition of the units (e.g. scheduled repair works, disruptions in operations of units), potential disruptions in supply of natural gas, etc.
- Electricity and thermal power production and provision of capacity reserve services at the Reserve Power Plant are considered to be regulated activities.
- When establishing the prices for the regulated services, the National Control Commission for Prices and Energy takes into account all variable and fixed costs of the Reserve Power Plant, allocates and compensates a part of these costs against capacity reserve revenue and the remaining part against the PSO service fees. The electricity buy-up price is established for electricity produced at the Reserve Power Plant as a whole.

The recoverable amount of cash generating units was estimated with reference to the value in use calculations. These calculations take into account the pre-tax cash flow forecasts based on the financial budgets approved by the management for the period of five years. Continuous cash flow is estimated using the discounted cash flow in the fifth year.

The management estimated the projected operating profit in view of historical data, forecasts of market position and the *Metholodogy for establishing the prices for electricity and capacity reserve services* approved by Resolution No. O3-229 of the National Control Commission for Prices and Energy on 14 September 2012.

Key assumptions used in performing the impairment test were as follows:

1. Value in use was estimated with reference to the most up-to-date budget covering the period from 2013 to 2017, the projected pre-tax discounted cash flows using a pre-tax weighted average capital cost (WACC) of 6.37%. The WACC was estimated according to the model of the National Control Commission for Prices and Energy based on the weighted cost of capital and debt, under which the equity risk premium is estimated as the difference in the average rate of return on investments in 10-year US treasury bonds and stocks. When estimating the pre-tax weighted average capital cost, the Company used the average annual borrowing cost and the base risk-free interest rates effective in December 2012, which were adjusted for risk effects in view of data announced in public by the Bank of Lithuania and the European Central Bank.
2. Cash flow forecasts are prepared by the management as a result of financial projections based on the financial performance results, market development expectations and regulatory environment. In line with the Methodology approved by the Commission, the Reserve Power Plant's revenue is estimated based on the projections of variable costs, fixed costs and general and administrative costs. The projections of revenue from regulated activities also take into account the depreciation expenses of property, plant and equipment and the return on investments, which is calculated on the value of assets used in the regulated activities. When estimating the return on investments, the management used the rate of return on investments set by the Commission for the year 2013, which was 6.129236%. The management's estimates showed that on average the gross profit margin will reach 23% during a five-year period. The gross profit margin takes into account all operating costs, general and administrative costs attributable to the Reserve Power Plant.

3 Critical accounting estimates and uncertainties (continued)

3. A pre-tax discount rate was used for cash flow forecasts. It reflects the risk pertaining to the operating segment of electricity production. The same discount rate is used in calculations.

As a result of the analysis, the management made a decision that it was not necessary to recognise any impairment loss as of 31 December 2012. Had the discount rate increased by 1p.p., no impairment loss would have to be recognised for cash generating units.

Impairment of investments in subsidiaries (in the Company)

In 2012 and 2011, Kauno Energetikos Remontas UAB generated profit. In view of this, the management of Lietuvos Energija AB believed that in 2012 there was no indication of further impairment of investment and decided not to recognise any additional impairment in respect of Kauno Energetikos Remontas UAB.

Write-down of inventory to net realisable value

Write-down of inventory to the net realisable value was determined based on the management's estimates on inventory obsolescence and estimated possible selling prices. This determination requires significant judgement. Judgement is exercised based on historical and future usage of spare parts and materials as well as estimated possible selling price and other factors.

Provisions for emission allowances

The Group/Company estimates the provisions for emission allowances/emission reduction units based on actual quantity of emission during the reporting period multiplied by the market price of one emission allowance/emission reduction unit. The actual quantity of emission is approved by the responsible regulating state authority within 4 months after the year-end. Based on historical experience, the management of the Group/Company does not expect any material differences between the amount of estimated provisions as at 31 December 2012 and emission quantities which will be approved in 2013.

Accrual of PSO service fees

The variable part of PSO service fees is estimated with reference to variable costs incurred during the reporting period. The producers ensuring the security of electric power supply and reserves of energy system, submit their PSO service fee estimates to the Commission which include breakdown of variable electric power production costs – natural gas, heavy fuel oil, emission allowance costs, costs for reagent desulphurisation. The variable part of PSO service fees in future calendar year is estimated with reference to scheduled variable costs to be incurred for the production of approved quota of electricity subject to support. As of 31 December 2012, the Company's management accounted for LTL 9,103 thousand (31 December 2011: LTL 96,030 thousand) PSO service revenue as compensation for variable costs. In addition, the Company recognised additional PSO service revenue of LTL 15,061 thousand, which was estimated by the National Control Commission for Prices and Energy in line with the methodology and allocated to the Company for the year 2011. Resolution No. O5-283 (11 October 2012).

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

4 Intangible assets

The structure of the Group's intangible assets as at 31 December 2012 and 31 December 2011 was as follows:

Group	**Patents and licenses**	**Computer software**	**Emission allowances**	**Other intangible assets**	**Total**
At 31 December 2010					
Cost	36	1,439	37,811	31	39,317
Accumulated amortisation	(25)	(1,357)	-	(24)	(1,406)
Accumulated impairment	-	-	-	-	-
Net book amount at 31 December 2010	**11**	**82**	**37,811**	**7**	**37,911**
Year ended 31 December 2010					
Opening net book amount	11	82	37,811	7	37,911
Additions	7	287	126,826	-	127,120
Acquisition of subsidiaries (Note 7)	1,084	1,875	-	133	3,092
Grant received (Note 21)	-	-	26,701	-	26,701
Disposal	-	-	(38,948)	(7)	(38,955)
Emission allowances utilised	-	-	(54,212)	-	(54,212)
Revaluation costs of emission allowances	-	-	(62,721)	-	(62,721)
Reclassification from property, plant and equipment (Note 5)	-	1,099	-	-	1,099
Amortisation	(10)	(290)	-	-	(300)
Net book amount at 31 December 2011	**1,092**	**3,053**	**35,457**	**133**	**39,735**
At 31 December 2011					
Cost	1,489	5,880	35,457	163	42,989
Accumulated amortisation	(397)	(2,827)	-	(30)	(3,254)
Accumulated impairment	-	-	-	-	-
Net book amount at 31 December 2011	**1,092**	**3,053**	**35,457**	**133**	**39,735**
Year ended 31 December 2011					
Opening net book amount	1,092	3,053	35,457	133	39,735
Additions	370	378	112,752	6	113,506
Grant received (Note 21)	-	-	14,832	-	14,832
Emission allowances utilised (Note 26)			(16,268)		(16,268)
Revaluation costs of emission allowances	-	-	(76,121)	-	(76,121)
Lending of emission allowances (Note 8)	-	-	(15,239)	-	(15,239)
Reclassification from property, plant and equipment (Note 5)	-	148	-	63	211
Reclassification from inventories	-	8	-	-	8
Amortisation	(585)	(1,534)	-	(4)	(2,123)
Net book amount at 31 December 2012	**877**	**2,053**	**55,413**	**198**	**58,541**
At 31 December 2012					
Cost	1,859	6,414	55,413	232	63,918
Accumulated amortisation	(982)	(4,361)	-	(34)	(5,377)
Net book amount at 31 December 2012	**877**	**2,053**	**55,413**	**198**	**58,541**

In 2012, the Group carried out the testing of the combined-cycle block and capitalised the emission allowances utilised during the testing by adding their value of LTL 3,205 thousand to the cost of the combined-cycle block.

4 Intangible assets (continued)

The structure of the Company's intangible assets as at 31 December 2012 and 31 December 2011 was as follows:

Company	**Patents and licenses**	**Computer software**	**Emission allowances**	**Other intangible assets**	**Total**
At 31 December 2010					
Cost	-	1,280	37,811	1	39,092
Accumulated amortisation	-	(1,280)	-	(1)	(1,281)
Accumulated impairment	-	-	-	-	-
Net book amount at 31 December 2010	**-**	**-**	**37,811**	**-**	**37,811**
Year ended 31 December 2010					
Opening net book amount	-	-	37,811	-	37,811
Additions	-	134	126,826	-	126,960
Grant received (Note 21)	-	-	26,701	-	26,701
Disposal	-	-	(38,948)	-	(38,948)
Emission allowances utilised	-	-	(54,212)	-	(54,212)
Revaluation costs of emission allowances	-	-	(62,721)	-	(62,721)
Reclassification from property, plant and equipment (Note 5)	-	942	-	-	942
Amortisation	-	(188)	-	-	(188)
Net book amount at 31 December 2011	**-**	**888**	**35,457**	**-**	**36,345**
At 31 December 2011					
Cost	-	2,358	35,457	-	37,815
Accumulated amortisation	-	(1,470)	-	-	(1,470)
Accumulated impairment	-	-	-	-	-
Net book amount at 31 December 2011	**-**	**888**	**35,457**	**-**	**36,345**
Year ended 31 December 2011					
Opening net book amount	-	**888**	**35,457**	**-**	**36,345**
Additions	-	51	112,752	6	112,809
Grant received (Note 21)	-	-	14,832	-	14,832
Emission allowances utilised (Note 26)	-	-	(16,268)	-	(16,268)
Revaluation costs of emission allowances	-	-	(76,121)	-	(76,121)
Lending of emission allowances (Note 8)			(15,239)	-	(15,239)
Reclassification from property, plant and equipment (Note 5)	-	-	-	63	63
Amortisation	-	(357)	-	(4)	(361)
Net book amount at 31 December 2011	**-**	**582**	**55,413**	**65**	**56,060**
At 31 December 2012					
Cost	-	2,140	55,413	69	57,622
Accumulated amortisation	-	(1,558)	-	(4)	(1,562)
Net book amount at 31 December 2012	**-**	**582**	**55,413**	**65**	**56,060**

In 2012, the Company carried out the testing of the combined-cycle block and capitalised the emission allowances utilised during the testing by adding their value of LTL 3,205 thousand to the cost of the combined-cycle block.

5 Property, plant, and equipment

The structure of the Group‘s property, plant and equipment as at 31 December 2012 and 31 December 2011 was as follows:

Group	**Land**	**Buildings**	**Structures and equipment**	**Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant**	**Structures and equipment of Reserve Power Plant**	**Combined-cycle block**	**Motor vehicles**	**Other PP&E**	**Construction in progress**	**Total**
Net book amount at 31 December 2010										
Cost or revalued amount	5,867	23,748	257,745	697,252	1,921,819	-	6,437	48,055	902,819	3,863,742
Accumulated depreciation	-	(7,999)	(242,244)	(136,399)	(472,297)	-	(5,076)	(34,760)	-	(898,775)
Accumulated impairment	-	(5,306)	(4,013)	(769)	(77,151)	-	(31)	(728)	-	(87,998)
Net book amount at 31 December 2010	**5,867**	**10,443**	**11,488**	**560,084**	**1,372,371**	**-**	**1,330**	**12,567**	**902,819**	**2,876,969**
Opening net book amount	5,867	10,443	11,488	560,084	1,372,371	-	1,330	12,567	902,819	2,876,969
Additions	-	619	678	198	708	-	115	76	268,665	271,059
Reclassification from/to assets held for sale	-	(1,531)	2,063	-	-	-	41	213	-	786
Acquisition of subsidiaries (Note 7)	-	-	3,352	-	-	-	29	21,006	-	24,387
Write-offs	-	-	(4)	(133)	(134)	-	-	(20)	-	(291)
Disposals	-	-	-	(16)	(292)	-	(168)	-	-	(476)
Reclassifications between groups	-	-	1,060	4,508	(1,319)	-	-	1,048	(5,297)	-
Reclassification to intangible assets (Note 4)	-	-	-	-	-	-	-	(157)	(942)	(1,099)
Revaluation	(130)	7,928	10,816	214	-	-	41	(6,149)	2,275	14,995
Depreciation	-	(363)	(1,841)	(27,535)	(40,667)	-	(350)	(1,164)	-	(71,920)
Net book amount at 31 December 2011	**5,737**	**17,096**	**27,612**	**537,320**	**1,330,667**	**-**	**1,038**	**27,420**	**1,167,520**	**3,114,410**
Net book amount at 31 December 2011										
Cost or revalued amount	5,737	18,221	32,885	701,763	1,918,800	-	5,540	66,315	1,167,520	3,916,781
Accumulated depreciation	-	(974)	(4,049)	(163,674)	(510,982)	-	(4,471)	(38,167)	-	(722,317)
Accumulated impairment	-	(151)	(1,224)	(769)	(77,151)	-	(31)	(728)	-	(80,054)
Net book amount at 31 December 2011	**5,737**	**17,096**	**27,612**	**537,320**	**1,330,667**	**-**	**1,038**	**27,420**	**1,167,520**	**3,114,410**

5 *Property, plant, and equipment (continued)*

Group	**Land**	**Buildings**	**Structures and equipment**	**Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant**	**Structures and equipment of Reserve Power Plant**	**Combined-cycle block**	**Motor vehicles**	**Other PP&E**	**Construction in progress**	**Total**
Year ended 31 December 2011										
Opening net book amount	5,737	17,096	27,612	537,320	1,330,667	-	1,038	27,420	1,167,520	3,114,410
Additions	-	-	125	207	1,055	-	127	3,382	175,549	180,445
Reclassification from/to assets held for sale	-	1,090	-	-	-	-	-	-	-	1,090
Write-offs	-	-	(52)	(5)	(68)	-	-	(15)	-	(140)
Disposals	-		(2)	(16)	(18)	(201)	(6)	(16)	-	(259)
Reclassifications between groups	-	92	-	1,398	(90)	1,329,353	-	32	(1,330,785)	-
Reclassification to intangible assets (Note 4)	-	-	-	-	-	-	-	(148)	(63)	(211)
Reclassification to investment property (Note 6)	-	(726)	-	-	-	-	-	-	(74)	(800)
Reclassification from inventories	-	-	-	-	-	-	-	40	-	40
Adjustment of revaluation reserve	-	(619)	-	-	-	-	-	-	-	(619)
Depreciation	-	(537)	(3,305)	(27,365)	(42,044)	(12,615)	(275)	(9,224)	-	(95,365)
Net book amount at 31 December 2012	**5,737**	**16,396**	**24,378**	**511,539**	**1,289,502**	**1,316,537**	**884**	**21,471**	**12,147**	**3,198,591**
At 31 December 2012										
Cost or revalued amount	5,737	18,058	32,956	703,347	1,919,679	1,329,152	5,661	69,590	12,147	4,096,327
Accumulated depreciation	-	(1,511)	(7,354)	(191,039)	(553,026)	(12,615)	(4,746)	(47,391)	-	(817,682)
Accumulated impairment	-	(151)	(1,224)	(769)	(77,151)	-	(31)	(728)	-	(80,054)
Net book amount at 31 December 2012	**5,737**	**16,396**	**24,378**	**511,539**	**1,289,502**	**1,316,537**	**884**	**21,471**	**12,147**	**3,198,591**

5 *Property, plant, and equipment (continued)*

In December 2012, the Group's property, plant and equipment carried at revalued amount was adjusted as a result of identification of an error. The Group's management believe the error is not material, therefore, the adjustment was made on a prospective basis. The total effect of adjustment amounted to LTL 619 thousand and was recognised as follows:

Decrease in other comprehensive income and equity under revaluation reserve	(Expenses) recognised in profit or loss	Total revaluation effect
(619)	-	(619)

In December 2011, independent valuation of the Group's property, plant and equipment carried at revalued amount was performed. The total effect of revaluation amounted to LTL 14,995 thousand and was recognised as follows:

Increase in other comprehensive income and equity under revaluation reserve	(Expenses) recognised in profit or loss	Total revaluation effect
6,590	8,405	14,995

As described in Note 3, as at 31 December 2012 and 2011, the Group's management decided not to perform an additional revaluation of property, plant and equipment/not to recognise impairment for property, plant and equipment.

5 *Property, plant, and equipment (continued)*

The structure of the Company‘s property, plant and equipment as at 31 December 2012 and 31 December 2011 was as follows:

Company	**Land**	**Buildings**	**Structures and equipment**	**Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant**	**Structures and equipment of Reserve Power Plant**	**Motor vehicles**	**Other PP&E**	**Construction in progress**	**Total**
Net book amount at 31 December 2010									
Cost or revalued amount	5,867	415	11,698	697,466	1,921,819	5,238	34,515	902,986	3,580,004
Accumulated depreciation	-	-	-	(136,399)	(472,297)	(4,540)	(33,371)	-	(646,607)
Accumulated impairment	-	(151)	(1,224)	(769)	(77,151)	(31)	(728)	-	(80,054)
Net book amount at 31 December 2010	**5,867**	**264**	**10,474**	**560,298**	**1,372,371**	**667**	**416**	**902,986**	**2,853,343**
Year ended 31 December 2010									
Opening net book amount	5,867	264	10,474	560,298	1,372,371	667	416	902,986	2,853,343
Additions	-	-	-	198	708	16	15	268,562	269,499
Write-offs	-	-	-	(133)	(134)	-	-	-	(267)
Disposals	-	-	-	(16)	(292)	(168)	-	-	(476)
Reclassifications between groups	-	-	-	4,508	(1,319)	-	-	(3,189)	-
Reclassification to intangible assets (Note 4)	-	-	-	-	-	-	-	(942)	(942)
Revaluation	(130)	1,179	1,425	-	-	(20)	(82)	-	2,372
Depreciation	-	(5)	(746)	(27,535)	(40,667)	(152)	(177)	-	(69,282)
Net book amount at 31 December 2011	**5,737**	**1,438**	**11,153**	**537,320**	**1,330,667**	**343**	**172**	**1,167,417**	**3,054,247**

5 Property, plant, and equipment (continued)

Company	**Land**	**Buildings**	**Structures and equipment**	**Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant**	**Structures and equipment of Reserve Power Plant**	**Combined-cycle block**	**Motor vehicles**	**Other PP&E**	**Construction in progress**	**Total**
Net book amount at 31 December 2011										
Cost or revalued amount	5,737	1,594	13,123	701,763	1,918,800	-	4,193	28,718	1,167,417	3,841,345
Accumulated depreciation	-	(5)	(746)	(163,674)	(510,982)	-	(3,819)	(27,818)	-	(707,044)
Accumulated impairment	-	(151)	(1,224)	(769)	(77,151)	-	(31)	(728)	-	(80,054)
Net book amount at 31 December 2011	**5,737**	**1,438**	**11,153**	**537,320**	**1,330,667**	**-**	**343**	**172**	**1,167,417**	**3,054,247**
Year ended 31 December 2011										-
Opening net book amount	5,737	1,438	11,153	537,320	1,330,667	-	343	172	1,167,417	3,054,247
Additions	-	-	-	207	1, 055	-	77	40	174,202	175,581
Write-offs	-	-	-	(5)	(68)	-	-	-	-	(73)
Disposals	-	-	-	(16)	(18)	(201)	-	-	-	(235)
Reclassifications between groups	-	92	-	1,398	(90)	1,329,353	-	32	(1,330,785)	-
Reclassification to intangible assets (Note 4)	-	-	-	-	-	-	-	-	(63)	(63)
Revaluation	-	-	-	-	-	-	-	-	-	-
Depreciation	-	(110)	(782)	(27,365)	(42,044)	(12,615)	(124)	(29)	-	(83,069)
Net book amount at 31 December 2012	**5,737**	**1,420**	**10,371**	**511,539**	**1,289,502**	**1,316,537**	**296**	**215**	**10,771**	**3,146,388**
Net book amount at 31 December 2012										
Cost or revalued amount	5,737	1,686	13,123	702,998	1,918,485	1,329,152	4,270	28,787	10,771	4,015,009
Accumulated depreciation	-	(115)	(1,528)	(190,690)	(551,832)	(12,615)	(3,943)	(27,844)	-	(788,567)
Accumulated impairment	-	(151)	(1,224)	(769)	(77,151)	-	(31)	(728)	-	(80,054)
Net book amount at 31 December 2012	**5,737**	**1,420**	**10,371**	**511,539**	**1,289,502**	**1,316,537**	**296**	**215**	**10,771**	**3,146,388**

5 *Property, plant, and equipment (continued)*

As described in Note 3, in 2012 no independent valuation was performed for the Company's property, plant and equipment carried at revalued amount.

In December 2011, independent valuation of the Company's property, plant and equipment carried at revalued amount was performed. The total effect of revaluation amounted to LTL 2,372 thousand and was recognised as follows:

Increase in other comprehensive income and equity under revaluation reserve	(Expenses) recognised in profit or loss	Total revaluation effect
2,653	(281)	2,372

The Group's property, plant and equipment amounting to LTL 403,799 thousand was pledged to the bank as collateral as of 31 December 2012 (31 December 2011: LTL 422,627 thousand). The Company's property, plant and equipment amounting to LTL 402,322 thousand was pledged to the bank as collateral (31 December 2011: LTL 413,364 thousand).

In 2012, the Group capitalised interest expenses of LTL 22,710 thousand (2011: LTL 30,764 thousand) at an average capitalisation rate of 2.23 per cent (2011: 3.95 per cent) on borrowings related to the development of non-current assets.

Net book amounts of property, plant and equipment acquired by the Group under financial lease contracts as at 31 December 2012 and 31 December 2011 were as follows:

Category of PP&E	**At 31 December 2012**	**At 31 December 2011**
Plant and machinery	2,405	2,829
Motor vehicles	109	75
Total	**2,514**	**2,904**

As of 31 December 2011, the Group's/Company's contractual commitments to acquire or construct property, plant and equipment amounted to LTL 115m. As of 31 December 2012, the Group/Company had no significant commitments.

The table below presents the carrying amounts of the Company's and the Group's property, plant and equipment that would have been recognised if the cost method had been used in accounting for assets as at 31 December 2012 and 31 December 2011:

Group	**Land**	**Buildings**	**Structures and equipment**	**Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant**	**Structures and equipment of Reserve Power Plant**	**Combined-cycle block**	**Motor vehicles**	**Other PP&E**	**Construc-tion in progress**	**Total**
At 31 December 2012										
Net book amount	**5,867**	**10,939**	**13,095**	**511,539**	**1,289,502**	**1,316,537**	**826**	**24,332**	**12,147**	**3,184,784**
At 31 December 2011										
Net book amount	**5,867**	**11,063**	**15,525**	**537,320**	**1,330,667**	**-**	**911**	**30,279**	**1,167,520**	**3,099,152**

Company	**Land**	**Buildin gs**	**Structures and equipment**	**Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant**	**Structures and equipment of Reserve Power Plant**	**Combined-cycle block**	**Motor vehicles**	**Other PP&E**	**Constructio n in progress**	**Total**
At 31 December 2012										
Net book amount	**5,867**	**191**	**2,466**	**511,539**	**1,289,502**	**1,316,537**	**343**	**266**	**10,771**	**3,137,482**
At 31 December 2011										
Net book amount	**5,867**	**100**	**2,669**	**537,320**	**1,330,667**	**-**	**361**	**238**	**1,167,417**	**3,044,639**

6 *Investment property*

	Group	Company
At 31 December 2010		
Cost	2,143	2,143
Accumulated depreciation	(291)	(291)
Net book amount at 31 December 2010	**1,852**	**1,852**
Year ended 31 December 2011		
Opening net book amount	1,852	1,852
Depreciation charge	(28)	(28)
Net book amount at 31 December 2011	**1,824**	**1,824**
At 31 December 2011		
Cost	2,143	2,143
Accumulated depreciation	(319)	(319)
Net book amount at 31 December 2011	**1,824**	**1,824**
Year ended 31 December 2012		
Opening net book amount	1,824	1,824
In-kind contribution for the acquisition of additionally issued shares of the associate (Note 7)	(1,824)	(1,824)
Reclassifications from property, plant and equipment (Note 5)	800	-
Depreciation charge	-	-
Net book amount at 31 December 2012	**800**	**-**
At 31 December 2012		
Cost	800	-
Accumulated depreciation	-	-
Net book amount at 31 December 2012	**800**	**-**

As estimated by the Company and based on observable market data, the fair value of the Group's and the Company's investment property as at 31 December 2012 and 31 December 2011 approximated its net book value.

In 2012, the Group and the Company had no income from lease of investment property. In 2011, the Group's and the Company's income from lease of investment property amounted to LTL 16 thousand and LTL 137 thousand, respectively. The average maturity term of lease contracts was 1 year as at 31 December 2011.

7 Investments

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

Subsidiary **At 31 December 2012**	**Cost**	**Impairment**	**Carrying amount**
Technologijų ir Inovacijų Centras UAB	43,601	-	43,601
Kauno Energetikos Remontas UAB	31,341	(21,041)	10,300
Energijos Tiekimas UAB	750	-	750
Total	**75,692**	**(21,041)**	**54,651**

Subsidiary **At 31 December 2011**	**Cost**	**Impairment**	**Carrying amount**
Technologijų ir Inovacijų Centras UAB	43,601	-	43,601
Kauno Energetikos Remontas UAB	31,341	(21,041)	10,300
Energijos Tiekimas UAB	750	-	750
Total	**75,692**	**(21,041)**	**54,651**

Movements of investments in subsidiaries for the periods ended 31 December 2012 and 31 December 2011 were as follows:

	Company at 31 December 2012	**Company at 31 December 2011**
Carrying amount as at 1 January	**54,651**	**23,897**
Acquisition and increase in share capital of subsidiaries	-	43,601
Disposal of subsidiaries (by contribution to the share capital of associates)	-	(12,847)
Carrying amount at 31 December	**54,651**	**54,651**

Acquisition of additional shares of Technologijų ir Inovacijų Centro UAB and disposal of Data Logistic Centras UAB

On 23 December 2011, the Company and Technologijų ir Inovacijų Centras UAB signed an Agreement for the Subscription of Shares, based on which Lietuvos Energija AB subscribed for 32,163,004 newly issued ordinary registered shares of Technologijų ir Inovacijų Centras UAB with par value of LTL 1 each. The total issue price was equal to LTL 34,414 thousand and it was paid by in-kind contribution of 12,847,295 ordinary registered intangible shares of Data Logistics Center UAB with par value of LTL 1 each, which made up 100% of the latter company's authorised share capital, with the carrying amount of LTL 12,847 thousand as at 31 December 2011. On the date of acquisition, Technologijų ir Inovacijų Centras UAB was an associate of Lietuvos Energija AB. As a result of this transaction, the Company's ownership interest in Technologijų ir Inovacijų Centras UAB increased from 20.72% to 54.04%.

As a result of acquisition, control was obtained over the associate Technologijų ir Inovacijų Centras UAB and public enterprise Respublikinis Energetikų Mokymo Centras (controlled through Technologijų ir Inovacijų Centras UAB). The acquisition of these companies was recognised as at 31 December 2011 and the carrying amounts of assets and liabilities acquired were as follows:

7 ***Investments (continued)***

	Carrying amounts (in LTL)		
	Technologijų ir Inovacijų Centras UAB	**Respublikinis Energetikų Mokymo Centras VŠĮ**	**Total**
Non-current intangible assets (Note 4)	3,092	-	3,092
Property, plant and equipment (Note 5)	24,201	186	24,387
Investments in subsidiaries and associates	36,255	-	36,255
Inventories	212	62	274
Current accounts receivable	2,474	275	2,749
Cash and cash equivalents	11,771	177	11,948
Non-current liabilities	(179)	(95)	(274)
Deferred income tax liabilities	(1,070)	-	(1,070)
Current accounts payable and other liabilities	(6,087)	(1,741)	(7,828)
Net assets acquired	**70,669**	**(1,136)**	**69,533**
Purchase consideration:			(43,354)
Paid as in-kind contribution by subsidiary's shares			(34,414)
Associate's net assets disposed			(8,940)
Difference accounted in equity attributable to:			26,179
Owners of the Company			(5,778)
Non-controlling interest			31,957

Merger of Technologijų ir Inovacijų Centras UAB and Data Logistics Center UAB

On 20 August 2012, the Board of Technologijų ir Inovacijų Centras UAB (TIC) together with the Board of Data Logistics Center UAB (DLC) approved the reorganisation terms and conditions for TIC and DLC. The reorganisation terms and conditions provided for that DLC, which will cease its activities following the reorganisation, and TIC, which will continue its activities following the reorganisation, will be reorganised by way of merger as stipulated in paragraph 3 of Art. 2.97 of the Lithuanian Civil Code, where DLC will be merged with TIC in a way that all the assets, rights and obligations of DLC will be transferred to TIC following the reorganisation.

On 2 October 2012, an Extraordinary General Meeting of Shareholders of Technologijų ir Inovacijų Centras UAB was held, during which the shareholders approved the terms and conditions of reorganisation and appropriate amendments to the Articles of Association. On 31 October 2012, Data Logistics Center UAB was merged with Technologijų ir Inovacijų Centras UAB. This merger had no impact on the Group's financial statements.

AB Lietuvos Energija and AB Lietuvos Elektrinė

AB Lietuvos Energija AB and AB Lietuvos Elektrinė AB were reorganised by way of merger pursuant to paragraph 4 of Article 2.97 of the Lithuanian Civil Code by merging the companies under reorganisation, which ceased their activities as legal entities after the reorganisation, into Lietuvos Energija AB, which continues the activities of reorganised companies after the reorganisation and to which all assets, rights and obligations of the companies under reorganisation were transferred, i.e. a new legal entity Lietuvos Energija AB was formed which continues its activities on the basis of companies which ceased their activities.

On 21 July 2011, Lietuvos Energija AB was registered with the Register of Legal Entities. The Company's code is 302648707, VAT payer's code is LT100006256115. Lietuvos Energija AB was established as a result of implementation of the National Energy Strategy, i.e. as a result of reorganisation by way of merger of two public companies: Lietuvos Energija AB, company code 220551550, including its branch offices Kruonis Pumped Storage Power Plant, Kaunas Hydro Power Plant, and Lietuvos Elektrinė AB, company code 110870933.

The merger of companies took place on 1 September 2010, i.e. on the date when AB Lietuvos Energija obtained control over AB Lietuvos Elektrinė.

7 ***Investments (continued)***

A public enterprise Respublikinis Energetikų Mokymo Centras VŠĮ is a non-profit public legal entity of limited civil liability founded according to the procedure prescribed by the Law on Public Establishments. In accordance with decisions passed at the General Shareholder Meeting held on 28 September 2010, on 27 October 2010 Lietuvos Energija AB concluded the purchase-sale agreement with Technologijų ir Inovacijų Centras UAB and disposed all the shares in Respublikinis Energetikų Mokymo Centras VŠĮ.

On 31 October 2012, the Company and NT Valdos UAB signed the Agreement for the Subscription of Shares, based on which Lietuvos Energija AB subscribed for 37,790 newly issued ordinary registered shares of NT Valdos UAB with par value of LTL 100 each. The total issue price amounting to LTL 3,779,000 was paid by in-kind contribution of immovable and movable property. Following this transaction, the Company's ownership interests in NT Valdos UAB increased by 0.64% and totalled 41.74 as of 31 December 2012.

Structure of the Group's investments in the associates and the joint venture as at 31 December 2012 and 31 December 2011 was as follows:

Group At 31 December 2012	**Cost**	**Ownership interest (%)**	**Impairment and equity method**	**Carrying amount**
NT Valdos UAB	132,560	42.32	(7706)	124,854
Nordic Energy Link AS	21,175	25.00	4,287	25,462
Geoterma UAB	7,396	23.44	(4,229)	3,167
Enmašas UAB	20	33.33	(7)	13
Total	**161,151**		**(7,655)**	**153,496**

Group At 31 December 2011	**Cost**	**Ownership interest (%)**	**Impairment and equity method**	**Carrying amount**
NT Valdos UAB	128,781	41.70	(9,152)	119,629
Nordic Energy Link AS	21,175	25.00	2,925	24,100
Geoterma UAB	7,396	23.44	(4,172)	3,224
Enmašas UAB	20	33.33	(7)	13
Total	**157,372**		**(10,406)**	**146,966**

Structure of the Company's investments in the associates and the joint venture as at 31 December 2012 and 31 December 2011 was as follows:

Company At 31 December 2012	**Cost**	**Ownership interest (%)**	**Impairment and equity method**	**Carrying amount**
NT Valdos UAB	130,720	41.74	-	130,720
Nordic Energy Link AS	21,175	25.00	-	21,175
Geoterma UAB	7,396	23.44	(3,864)	3,532
Total	**159,291**		**(3,864)**	**155,427**

Company At 31 December 2011	**Cost**	**Ownership interest (%)**	**Impairment and equity method**	**Carrying amount**
NT Valdos UAB	126,941	41.10	-	126,941
Nordic Energy Link AS	21,175	25.00	-	21,175
Geoterma UAB	7,396	23.44	(3,864)	3,532
Total	**155,512**		**(3,864)**	**151,648**

The financial position of the associates and the joint venture as at 31 December 2012 and 31 December 2011 and the results of their operation for the years then ended were as follows (unaudited):

At 31 December 2012	**Assets**	**Liabilities**	**Sales revenue**	**Net profit (loss) for the year**
NT Valdos UAB	312,900	18,213	53,337	1,382
Nordic Energy Link AS	279,511	182,846	48,153	5,449
Geoterma UAB	45,480	11,665	16,994	(242)
Enmašas UAB *	-	-	-	-

7 ***Investments (continued)***

At 31 December 2011	**Assets**	**Liabilities**	**Sales revenue**	**Net profit (loss) for the year**
NT Valdos UAB	298,932	10,113	54,997	(17,149)
Nordic Energy Link AS	294,810	203,594	47,683	4,043
Geoterma UAB	49,408	13,870	13,396	96
Enmašas UAB *	-	-	-	-

*- at the date of signing these financial statements, the financial statements of this company for a corresponding period were not presented. On 25 September 2009, Enmašas UAB was given the status of a company in liquidation.

Movements of investments in the associates and the joint venture during the periods ended 31 December 2012 and 31 December 2011 were as follows:

	Group at 31 December 2012	**Company at 31 December 2012**	**Group at 31 December 2011**	**Company at 31 December 2011**
Carrying amount at 1 January	**146,966**	**151,648**	**162,719**	**160,836**
Acquisition of additional shares of Technologijų ir Inovacijų Centras UAB	-	-	(8,940)	(9,188)
Acquisition of associates	3,779	3,779	1,840	-
Impairment of investments	-	-	(916)	-
Share of other comprehensive income of associates and joint ventures arising on revaluation of property, plant and equipment	65	-	657	-
Share of changes of associates and joint ventures recognised directly in equity	-	-	(2,346)	-
Share of result of operations of associates and joint ventures, (loss)/profit	2,686	-	(6,048)	-
Carrying amount at 31 December	**153,496**	**155,427**	**146,966**	**151,648**

8 *Other non-current assets*

The Group's and the Company's other non-current assets comprise as follows:

	Group at 31 December 2012	**Company at 31 December 2012**	**Group at 31 December 2011**	**Company at 31 December 2011**
Right to receive emission allowances in future	33,498	33,498	18,826	18,826
Less: impairment	(9,775)	(9,775)	(9,169)	(9,169)
Carrying amount at 31 December	**23,723**	**23,723**	**9,657**	**9,657**

As at 31 December 2011, 400,000 emission allowances were lent under the provisions of the lending agreement signed on 1 December 2009 with STX Services BV. The agreement expires in 2012. On 16 April 2012, additional 650,000 emission allowances were lent under the provisions of the lending agreement signed on 13 April 2012 with CF Partners (UK) LLP, which expires on 28 February 2014. Impairment of emission allowances was estimated with reference to the market prices of emission allowances as at 31 December 2012.

9 Inventories

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

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Heavy fuel oil	54,434	54,434	118,185	118,185
Spare parts	11,600	11,600	10,148	10,148
Materials	6,804	4,577	6,833	4,999
Goods for resale	1,096	1,096	1,126	1,126
Less: write-down to net realisable value	(10,298)	(10,280)	(10,755)	(10,737)
Carrying amount	**63,636**	**61,427**	**125,537**	**123,721**

The cost of the Group's and the Company's inventories carried at net realisable value as at 31 December 2012 amounted to LTL 11,431 thousand and LTL 11,410 thousand, respectively (31 December 2011: LTL 12,682 thousand and LTL 12,661 thousand, respectively).

The Group's inventories expensed during the period ended 31 December 2012 amounted to LTL 141,359 thousand (2011: LTL 19,527 thousand). The Company's inventories expensed during the period ended 31 December 2012 amounted to LTL 129,739 thousand (2011: LTL 7,172 thousand).

Movements in impairment of inventories during the periods ended 31 December 2012 and 31 December 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
Impairment of inventories at 1 January	10,755	10,737	9,141	9,141
Write-down of inventories during the reporting period	1,217	1,217	2,229	2,229
Write-off of impairment	(94)	(94)	(35)	(35)
Acquisition of impairment upon acquisition of subsidiary	-	-	18	-
Reversal of inventory write-down	(1,580)	(1,580)	(598)	(598)
Impairment of inventories at 31 December	**10,298**	**10,280**	**10,755**	**10,737**

The impairment charge and reversal of inventory write-down were included in operating expenses in the statement of comprehensive income. In 2012, the Group/Company made additional write-downs to net realisable value for obsolete and slow-moving spare parts stored at the warehouse.

As at 31 December 2012, inventories pledged as collateral by the Group/Company amounted to LTL 6,000 thousand (31 December 2011: LTL 26,000 thousand) (Note 19).

10 Trade receivables

The Group's and the Company's trade receivables comprise as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Unbilled accrued revenue from electricity sales*	159,180	159,180	96,030	96,030
Receivables for sales of electricity in Lithuania	119,754	98,350	130,081	117,075
Receivables for repair and design works	10,878	-	9,310	-
Receivables for sales of thermal energy	7,609	7,609	4,289	4,289
Other trade receivables	7,546	47	6,386	-
Receivables for exported electricity	2,213	2,213	604	604
Total	**307,180**	**267,399**	**246,700**	**217,998**
Less: allowance for doubtful receivables	(18,325)	(13,483)	(13,221)	(10,500)
Carrying amount	**288,855**	**253,916**	**233,479**	**207,498**

*As described in Note 3, in 2012 the Group/Company recognised additional amount of LTL 15,061 thousand (2011: LTL 96,030 thousand) in relation to receivable PSO service fees as a compensation of differences in gas prices in 2011, and additional amount of LTL 48,089 thousand in relation to PSO service fees allocated for the construction of the Combined-cycle block. All these amounts were received in 2013.

The fair values of trade receivables approximate their carrying amounts.

Movements in impairment of trade receivables during the years ended 31 December 2012 and 31 December 2011 were as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Carrying amount at 1 January	**13,221**	**10,500**	**12,671**	**9,612**
Reversal of impairment of doubtful trade receivables	(185)	-	(1,130)	-
Acquisition of impairment upon acquisition of the subsidiary	-	-	72	-
Recognised as doubtful receivables during the reporting period	5,289	2,983	1,608	888
Carrying amount at 31 December	**18,325**	**13,483**	**13,221**	**10,500**

The impairment charge of doubtful receivables was included in other operating expenses in the statement of comprehensive income.

As at 31 December 2012 and 31 December 2011, the Group's and the Company's trade receivables, in respect of which impairment was recognised, mostly comprised trade receivables from Ekranas AB (LTL 9,612 thousand) which was bankrupt as of the date of preparation of the financial statements.

The ageing analysis of the Group's and the Company's trade receivables not past due or past due but not impaired is as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Not past due	283,113	253,630	224,721	203,168
Past due up to 30 days	3,537	284	6,928	4,330
Past due from 30 to 60 days	833	2	578	-
Past due from 60 to 90 days	457	-	895	-
Past due over 90 days	915	-	357	-
Carrying amount	**288,855**	**253,916**	**233,479**	**207,498**

11 Other accounts receivable

The Group's and the Company's other non-current accounts receivable comprised as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Unbilled accrued revenue for sales of electricity*	9,103	9,103	-	-
Receivables for emission allowances lent	1,115	1,115	626	626
Receivables for apartments	709	709	800	800
Total	**10,927**	**10,927**	**1,426**	**1,426**

Receivables for emission allowances lent represent future proceeds under the lending agreement signed with STX BV and CF Partners (UK) LLP. Receivables were estimated at the present value of future payments

*As described in Note 3, in 2012 the Group/Company accounted for LTL 9,103 thousand amount relating to PSO service fees receivable due to compensation of the difference in variable costs.

The Group's and the Company's current other accounts receivable comprised as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
VAT receivable	12,691	12,691	3,725	3,632
Grants receivable for Syderiu project	4,930	4,930	1,017	1,017
Excise duty on heavy fuel oil receivable	3,115	3,115	-	-
Other receivables	3,142	2,898	3,855	3,089
Grant for emission allowances receivable	1,380	1,380	-	-
Receivables for IT and telecommunications services	306	306	325	325
Loan granted to Kauno Energetikos Remontas UAB	-	-	-	6,500
	25,564	**25,320**	**8,922**	**14,563**
Less: allowance for doubtful receivables	(1,771)	(1,771)	(1,915)	(1,915)
Carrying amount	**23,793**	**23,549**	**7,007**	**12,648**

On 28 January 2010, the credit line agreement was signed based on which Kauno Energetikos Remontas UAB was granted a credit line for the amount of LTL 2,500 thousand. According to this agreement, the annual interest rate of 6.33 per cent was payable on any withdrawn amount of the credit line until 30 April 2010. With effect from 1 May 2010, the annual interest rate is set as three-month VILIBOR plus 3.5 per cent margin. The credit repayment date provided for in the agreement was 31 December 2010. On 23 December 2010, an additional arrangement to the agreement was signed under which the limit of the credit line was established at LTL 6,500 thousand and the final repayment date of the credit was extended until 31 December 2012. In addition, Kauno Energetikos Remontas UAB assumed a commitment to pledge real estate with a market value equal to or exceeding the amount of the credit line for the benefit of Lietuvos Energija AB. Kauno Energetikos Remontas UAB also committed not to borrow from third parties and not to pledge assets or any non-property rights for the benefit of such third parties without a prior written consent of Lietuvos Energija AB. The credit was repaid in 2012, and the credit line agreement had expired as of 31 December 2012.

On 8 January 2010, the Company signed a credit line agreement with its subsidiary Energijos Tiekimas UAB for the amount of LTL 7,300 thousand, which expired on 31 December 2011. No amount had been withdrawn from the credit line as of 31 December 2011.

Movements in impairment of doubtful other accounts receivable during the years ended 31 December 2012 and 31 December 2011 were as follows:

11 Other accounts receivable (continued)

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Carrying amount at 1 January	**1,915**	**1,915**	**1,400**	**1,400**
Reversal of impairment	(144)	(144)	(14)	(14)
Write-off of doubtful receivables	-	-	(1)	(1)
Recognised as doubtful receivables during the reporting period	-	-	530	530
Carrying amount at 31 December	**1,771**	**1,771**	**1,915**	**1,915**

The impairment charge was included in other operating expenses in the statement of comprehensive income.

The ageing analysis of the Group's and the Company's other current accounts receivable not past due or past due but not impaired is as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Not past due	23,726	23,482	6,983	12,624
Past due up to 30 days	67	67	24	24
Carrying amount	**23,793**	**23,549**	**7,007**	**12,648**

The fair value of other current accounts receivable approximates their carrying amount.

12 Cash and cash equivalents

The Group's and the Company's cash and cash equivalents comprised as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Cash at bank and in hand	33,055	6,867	24,508	4,882
Overnight deposit at Swedbank AB (contract currency LTL)	1,290	1,290	3,399	3,399
Carrying amount	**34,345**	**8,157**	**27,907**	**8,281**

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

According to the loan agreement signed with DnB NORD Bankas AB, the Group pledged to the bank its current and future cash inflows into the bank account (Note 19). As of 31 December 2012, the balance with DnB NORD Bank AB pledged amounted to LTL 11 thousand (31 December 2011: LTL 362 thousand).

According to the syndicated loan agreement signed with Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc, Lithuania branch and DnB NORD Bankas AB, the Group pledged current and future cash inflows into the accounts at these banks (Note 19). The cash balance in these accounts amounted to LTL 11 thousand as of 31 December 2012 (31 December 2011: LTL 422 thousand).

For the purposes of cash flow statement, cash and cash equivalents comprise as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Cash and cash equivalents	34,345	8,157	27,907	8,281
Bank overdrafts (Note 19)	(63,890)	(57,428)	(6,557)	(5,388)
Carrying amount	**(29,545)**	**(49,271)**	**21,350**	**2,893**

13 Non-current assets held for sale

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Non-current assets of Kauno Energetikos Remontas UAB	603	-	1,740	-
Non-current assets acquired from Kauno Energetikos Remontas UAB	-	-	1,543	1,543
	603	**-**	**3,283**	**1,543**

Non-current assets held for sale comprise buildings, which are expected to be sold by the Group/Company in 2013.

14 Share capital and share premium

Lietuvos Energija AB started its activities on 1 September 2011 following the reorganisation by way of merger of AB Lietuvos Energija and AB Lietuvos Elektrinė. On the date of merger, the authorised share capital of AB Lietuvos Energija amounted to LTL 489,282,926 and was divided into 489,282,926 ordinary registered shares with the par value of LTL 1 each, whereas the authorised share capital of AB Lietuvos Elektrinė amounted to LTL 145,800,689 and was divided into 145,800,689 ordinary registered shares with the par value of LTL 1 each. Following the reorganisation, the authorised share capitals of both companies were merged. The shares of companies were exchanged into the shares of Lietuvos Energija AB as follows: 1.28 shares of the new Company in exchange for 1 share of AB Lietuvos Energija, and 1.37 shares of the new Company in exchange for 1 share of AB Lietuvos Elektrinė. The procedure of share exchange was defined in the Terms and Conditions of Reorganisation of AB Lietuvos Energija and AB Lietuvos Elektrinė, which were approved by the decision of the Board during the meeting held on 11 May 2011.

As of 31 December 2012 and 31 December 2011, the Company's share capital amounted to LTL 635,083,615 and it was divided into 635,083,615 ordinary registered shares with the par value of LTL 1 each. All the shares are fully paid. The shares of Lietuvos Energija AB have been listed on the Main List of NASDAQ OMX Vilnius Stock Exchange since 1 September 2011. The highest share price at the Stock Exchange trading session in 2012 was EUR 0.455 per share, and the lowest share price was EUR 0.373 per share. The total number of shareholders as at 31 December 2012 was 6,406.

The shareholders' structure of the Company is as follows:

	Share capital at 31 December 2012		Share capital at 31 December 2011	
Shareholders	**(LTL)**	**%**	**(LTL)**	**%**
Visagino Atominė Elektrinė AB	610,515,515	96.13	610,515,515	96.13
Other shareholders	24,568,100	3.87	24,568,100	3.87
Total	**635,083,615**	**100.00**	**635,083,615**	**100.00**

As of 31 December 2012, Visagino Atominė Elektrinė UAB was wholly owned (100%) by the State of Lithuania represented by the Lithuanian Ministry of Energy.

	Share capital		Share premium	
	(shares)	**(shares)**	**(LTL)**	**(LTL)**
	2012	**2011**	**2012**	**2011**
Number of shares at the beginning of the period	**635,083,615**	**635,083,615**	**295,767,304**	**295,767,304**
Number of shares at the end of the period	**635,083,615**	**635,083,615**	**295,767,304**	**295,767,304**

15 Revaluation reserve

Revaluation reserve comprises increase in value on revaluation of property, plant and equipment.

Group	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 31 December 2010	**10,098**	**(1,515)**	**8,583**
Depreciation of revaluation reserve	(882)	82	(800)
Increase in revaluation reserve	6,589	(988)	5,601
Other adjustments	351	-	351
Balance at 31 December 2011	**16,156**	**(2,421)**	**13,735**
Balance at 31 December 2011	**16,156**	**(2,421)**	**13,735**
Depreciation of revaluation reserve	(1,264)	110	(1,154)
Adjustment of revaluation reserve	(619)	93	(526)
Balance at 31 December 2012	**14,273**	**(2,218)**	**12,055**

Company	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 31 December 2010	**7,770**	**(1,166)**	**6,604**
Depreciation of revaluation reserve	(546)	82	(464)
Increase in revaluation reserve	2,653	(398)	2,255
Balance at 31 December 2011	**9,877**	**(1,482)**	**8,395**
Balance at 31 December 2011	**9,877**	**(1,482)**	**8,395**
Depreciation of revaluation reserve	(731)	110	(621)
Balance at 31 December 2012	**9,146**	**(1,372)**	**7,774**

16 Legal reserve

The legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital.

As of 31 December 2012, the Group’s legal reserve amounted to LTL 36,145 thousand and the Company’s legal reserve amounted to LTL 35,867 thousand (31 December 2011: LTL 35,972 thousand and LTL 35,867 thousand, respectively).In 2012, the Group‘s subsidiaries transferred in total LTL 173 thousand to the legal reserve.

17 Other reserves

The Group's and the Company's other reserves comprised as follows:

Group/Company	Reserve for share capital reduction due to transfer of heavy fuel oil storage facilities	Reserve for investments	Non-current asset-related reserves	Total
Balance at 31 December 2010	**(63,777)**	**116,883**	**664,669**	**717,775**
Reserves utilised	-	-	-	-
Balance at 31 December 2011	**(63,777)**	**116,883**	**664,669**	**717,775**
Balance at 31 December 2011	**(63,777)**	**116,883**	**664,669**	**717,775**
Reserves utilised	-	-	-	-
Balance at 31 December 2012	**(63,777)**	**116,883**	**664,669**	**717,775**

Upon the transition to IFRS on 1 January 2004, the Company's equity increased by LTL 721,107 thousand. In order to impose restrictions on the ability to distribute this increase, a non-current assets-related reserve was established. As of 31 December 2012 and 2011, the amount of this reserve attributable to the owners of the Company was LTL 664,669 thousand.

As of 31 December 2012 and 2011, the Company's reserve for investments amounted to LTL 116,883 thousand. It was established to accumulate funds for the construction and development of non-current assets. A decision on the use of these funds is to be made by the shareholders.

The reserve for the share capital due to the transfer of heavy fuel oil storage facilities is the negative reserve for the reduction of the share capital, which was established in 1999 as a result of the transfer of heavy fuel oil storage facilities to VĮ Vilniaus Mazuto Saugykla. Although expected, the share capital has not been reduced by this amount until now.

18 Dividends per share

In 2012, the Company's shareholders made no decisions in relation to payment of dividends.

The Ordinary General Meeting of Shareholders of Lietuvos Energija AB was held on 29 April 2011 and resolved to pay out dividends of LTL 0.182 per share from retained earnings as at 1 January 2011

	At 31 December 2011
Amount of dividends (LTL'000)	89,050
Weighted average number of shares (units)	635,083,615
Dividends per share (LTL)	**0.14**

19 Borrowings

The Group's and the Company's borrowings by maturity term:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011 (restated)	Company at 31 December 2011 (restated)
Non-current borrowings				
Syndicated loan (Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc, Lithuania Branch and DnB NORD Bankas AB,) in EUR, to be repaid by 1 April 2018	59,940	59,940	-	-
Loan from the European Bank for Reconstruction and Development, in EUR, to be repaid by 18 February 2025	224,720	224,720	245,149	245,149
Syndicated loan (Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc, Lithuania Branch, DnB NORD Bankas AB and Danske Bank A/S, Lithuania Branch) in EUR, to be repaid by 3 June 2016	259,438	259,438	-	-
Loand from Nordea Bank Finland, Lithuania branch, EUR, to be repaid by 1 December 2017	8,272	-	-	-
Loan from DnB NORD AB, in EUR, to be repaid by 1 May 2013	-	-	1,857	1,857
Total non-current borrowings	**552,370**	**544,098**	**247,006**	**247,006**
Current borrowings				
Syndicated loan (Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc Lithuania Branch and DnB NORD Bankas AB) in EUR, to be repaid by 1 April 2018	14,253	14,253	89,635	89,635
Overdrafts	63,890	57,428	6,557	5,388
Nordea Finance Lithuania UAB, in LTL, to be repaid by 27 March 2013	3,155	-	-	-
Nordea Bank Finland Lithuania branch, in EUR, to be repaid by 1 December 2017	300	-	-	-
Loan from DnB NORD AB, in EUR, to be repaid by 1 May 2013	1,857	1,857	3,714	3,714
Credit line from Swedbank AB, maturity date – 1 March 2012	-	-	13,000	13,000
Syndicated loan (Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc Lithuania branch, DnB NORD Bankas AB, Danske Bank A/S Lithuania branch) in EUR, to be repaid by 3 June 2016	21,620	21,620	281,058	281,058
Loan from the European Bank for Reconstruction and Development, in EUR, to be repaid by 18 February 2025	20,429	20,429	-	-
Loan from the European Bank for Reconstruction and Development, accrued interest	905	905	1,196	1,196
Total current borrowings	**126,409**	**116,492**	**395,160**	**393,991**

As of 31 December 2012, the Group's non-current and current borrowings comprised as follows:

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

19 Borrowings (continued)

On 30 June 2004, a loan agreement and related amendments were concluded with Swedbank AB, SEB AB, Nordea Bank Finland Plc, Lithuania Branch and DnB NORD AB for the amount of EUR 38,000 thousand (LTL 131,206 thousand) and the repayment date of 1 April 2018.

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

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

The overdraft limit granted by Danske Bank A/S, Lithuania branch amounted to LTL 10,000 thousand. The overdraft agreement expired on 28 March 2012. On 2 February 2012, the term of the agreement was extended until 28 March 2013, and the overdraft limit was increased up to LTL 15m. As of 31 December 2012, the undrawn balance of overdraft was LTL 8,538 thousand.

On 30 March 2011, the overdraft limit granted by Danske Bank A/S, Lithuania branch amounted to LTL 17,000 thousand. The overdraft agreement expired on 30 July 2012. On 27 July 2012, the term of the agreement was extended until 1 December 2012. As of 31 December 2012, the term of the agreement had expired.

The total limit of overdraft granted by Swedbank AB was LTL 13,000 thousand. The overdraft agreement expired on 1 March 2012. As of 31 December 2012, the term of the agreement had expired.

On 15 November 2012, the overdraft agreement was signed with SEB Bankas AB for the amount of LTL 160,000 thousand. The overdraft agreement is valid until 18 November 2013. As of 31 December 2012, the undrawn balance of overdraft was LTL 102,572 thousand.

In 2012, a credit agreement was signed with Nordea Bank Finland, Lithuania branch for the amount of EUR 2,896 thousand. As of 31 December 2012, the withdrawn balance amounted to EUR 2,482 thousand. The agreement expires on 1 December 2017.

In 2012, a factoring agreement was signed with Nordea Finance Lithuania UAB for the maximum amount of LTL 10,013 thousand. The agreement expires on 27 March 2013. As of 31 December 2012, the factoring balance from the bank amounted to LTL 3,155 thousand.

As of 31 December 2012, the Group's undrawn balances of loans and overdrafts under the above-listed agreements amounted to LTL 112,539 thousand (31 December 2011: LTL 107,424 thousand). As of 31 December 2012, the Company's undrawn balances of loans and overdrafts amounted to LTL 102,572 thousand (31 December 2011: LTL 98,593 thousand).

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

The Company has assumed an obligation to DnB NORD AB to pledge all current and future cash inflows into the accounts opened at this bank (Note 12). The Company has also pledged fuel reserves held under the right of ownership and stored at Elektrinės St. 21, in Elektrėnai, for the market value not lower than LTL 6,000 thousand (Note 9), and assets pledged should be insured by the insurer agreed with the bank and indicating the bank as a beneficiary.

The Company has assumed an obligation to Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc, Lithuania Branch, DnB NORD Bankas AB to pledge to the banks appropriate non-current assets with the carrying amount not lower than LTL 340 million (Note 5), all cash balances in all bank accounts held at banks registered in Lithuania (Note 12); it is also committed to carry out its operations only through the accounts held at these banks.

The Company has assumed an obligation to Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc, Lithuania branch, DnB NORD Bankas AB and Danske Bank A/S, Lithuania branch to pledge the entire Project, i.e. immovable, tangible and intangible assets constituting 400 MW combined-cycle gas turbine block or developed in the course of the Project, all current and future cash inflows into all current and future accounts opened at these banks, and all property rights arising from property insurance contracts associated with the Project. Currently, the procedures of pledging the combined-cycle gas turbine block are in process, and they are expected to be finalised by 3 June 2013.

Under the loan agreements, the Company is also required to comply with certain financial and non-financial covenants.

As of 31 December 2011, Lietuvos Energija AB did not comply with the covenant stipulated in the Syndicated Loan Agreement No. 10-021291-IN signed on 31 March 2010 with Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc Lithuania branch, DNB Bankas AB and Danske Bank A/S Lithuania branch (hereinafter collectively "the Banks"). The requirement to maintain debt to EBITDA ratio not higher than 7 was breached. This ratio was exceeded by 1.6. In addition, the Company has a commitment not to make investments in other companies (including, but not limited to, investments in equity shares, bonds or other securities of companies), and not to establish new companies (separately or jointly with other partners) without obtaining a written consent from the majority of the Banks. On 23 December 2011, the Company signed an agreement for the subscription of shares of Technologijų ir Inovacijų Centras UAB. The Company did not refer to the Banks to obtain their consent for this transaction, which was in breach of the aforementioned covenant. On 8 March 2012, the Company received an official letter from the Banks confirming that in 2012 the Banks will not exercise their contractual right to require an early repayment of the loan in full or in part. However, based on the provisions of the Agreement, the Banks do have a right to require an early repayment of the loan in full or in part. In view of these provisions, the outstanding balance of the loan amounting to LTL 281,058 thousand as of 31 December 2011 was reclassified in the Company's financial statements as current borrowings. On 31 January 2012, the Company signed an agreement for the acquisition of newly issued shares of NT Valdos UAB. In 2012, the Company referred to the Banks for their consent for these transactions. On 28 December 2012 it received an official letter from the Banks confirming that they will not exercise

19 Borrowings (continued)

their contractual right, which the Banks are entitled to in the event the borrower breaches paragraph 11.2.7 of the loan agreement (i.e. the right to require payment of fine, the right to require an early repayment in full or in part of the outstanding balance of loan by the borrower to the Banks). In view of this official letter, outstanding balance of the loan amounting to LTL 259,438 thousand as of 31 December 2012 (31 December 2011: LTL 281,058 thousand) was reclassified in the Company's financial statements as non-current borrowings.

In view of the provisions of the loan agreement signed on 30 June 2004 with Swedbank AB, SEB Bankas UAB, Nordea Bank Finland Plc branch, DnB NORD Bankas AB (hereinafter collectively "the Banks"), as of 31 December 2011 the Company also did not comply with its above-mentioned obligation not to make investments in other companies without obtaining a written consent from the majority of the Banks. On 8 March 2012, the Company received an official letter from the Banks confirming that in 2012 the Banks will not exercise their contractual right to require an early repayment of the loan in full or in part. However, the outstanding balance of the loan amounting to LTL 89,635 thousand as of 31 December 2011 was reclassified in the Company's financial statements as current borrowings. On 31 January 2012, the Company signed an agreement for the acquisition of newly issued shares of NT Valdos UAB. In 2012, the Company referred to the Banks for their consent for these transactions. On 28 December 2012 it received an official letter from the Banks confirming that they will not exercise their contractual right, which the Banks are entitled to in the event the borrower breaches paragraph 11.2.7 of the loan agreement (i.e. the right to require payment of fine, the right to require an early repayment in full or in part of the outstanding balance of loan by the borrower to the Banks). In view of this official letter, the outstanding balance of the loan amounting to LTL 59,940 thousand as of 31 December 2012 (31 December 2011: LTL 89,635 thousand) was reclassified in the Company's financial statements as non-current liabilities.

As of 31 December 2012, the fair value of the Group's borrowings was equal to approx. LTL 715,786 thousand (31 December 2011: LTL 689,034 thousand). As of 31 December 2012, the fair value of Company's borrowings was equal to approx. LTL 697,685 thousand (31 December 2011: LTL 687,965 thousand).

The table below presents data on the Group's borrowings by interest rate repricing intervals:

	Group At 31 December 2012	**Company At 31 December 2012**	**Group At 31 December 2011**	**Company At 31 December 2011**
1 to 3 months	76,522	58,333	300,615	299,446
3 to 6 months	602,257	602,257	340,355	340,355
Total borrowings	**678,779**	**660,590**	**640,970**	**639,801**

As of 31 December 2012 and 31 December 2011, the Company and the Group had no other committed undrawn credit facilities.

20 Finance lease liabilities

The Group's future minimum finance lease payments for equipment and other assets comprise as follows:

Group	**At 31 December 2012**		**At 31 December 2011**	
	Minimum finance lease payments	**Present value of minimum finance lease payments**	**Minimum finance lease payments**	**Present value of minimum finance lease payments**
Finance lease payments:				
No later than 1 year	331	327	596	584
Later than 1 year an no later than 5 years	47	44	322	319
Minimum finance lease payments	**378**	**371**	**918**	**903**
Less: future finance charges	(7)	-	(15)	-
Present value of minimum finance lease payments	**371**	**371**	**903**	**903**

The Group's finance lease liabilities are secured by the lessor's right into the lessee's assets acquired under finance lease (Note 5).

The Company did not have any finance lease liabilities as of 31 December 2012 and 31 December 2011.

The fair value of the finance lease liabilities approximates their carrying amount.

21 Grants

The balance of grants includes grants received to finance the acquisition of assets. Movement of grants in 2012 and 2011 was as follows:

	Assets-related grants			
Group/Company	**Fuel combustion equipment and other assets**	**Project for renovation, improvement of environmental and safety standards**	**Grants for emission allowances**	**Total**
Balance at 1 January 2011	**26,795**	**846,162**	-	**872,957**
Depreciation of immovable property, plant and equipment	(2,109)	(9,626)	-	(11,735)
Grants received	69,167	78,180	26,701	174,048
Utilisation of grant for emission allowances	-	-	(26,701)	(26,701)
Balance at 31 December 2011	**93,853**	**914,716**	**-**	**1,008,569**
Balance at 1 January 2012	**93,853**	**914,716**	**-**	**1,008,569**
Depreciation of immovable property, plant and equipment	(2,089)	(16,471)	-	(18,560)
Grants received	-	110,487	16,211	126,698
Grants repaid	(35)	-	-	(35)
Utilisation of grant for emission allowances	-	-	(16,211)	(16,211)
Balance at 31 December 2012	**91,729**	**1,008,732**	**-**	**1,100,461**

In 2012, assets-related grants decreased by LTL 18,560 thousand, i.e. by the amount of depreciation of property, plant and equipment (2011: LTL 11,735 thousand). Depreciation expenses of property, plant and equipment were reduced by this amount in the statement of comprehensive income.

In 2012, the Company received a grant of LTL 37,420 thousand from the International Fund for Support of Decommissioning of Ignalina Nuclear Power Plant for the construction of a new 400 MW combined-cycle gas turbine block (2011: LTL 79,447 thousand).

In 2012, the Company received PSO service fees amounting to LTL 73,067 thousand for the construction of Unit No.9 of the Reserve Power Plant (2011: LTL 67,900 thousand).

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**
Advance amounts of PSO service fees received	26,208	26,208	39,313	39,313
Non-current payables for material valuables	4,056	4,056	4,368	4,368
Provisions for pension benefits and indemnification for damages	2,114	1,880	1,984	1,710
Deferred revenue	1,609	-	-	-
Liability related to guarantees for Nordic Energy Link	259	259	472	472
Other	151	-	**-**	**-**
Total	**34,397**	**32,403**	**46,137**	**45,863**

Provisions for pension benefits represent payable amounts calculated in accordance with the Lithuanian laws. Each employee at retirement age is entitled to receive a payment of 2 monthly salaries upon retirement.

Current portion of advance amounts of PSO service fees received is included in advance amounts received (Note 25).

23 Income tax

Income tax expense as at 31 December 2012 and 31 December 2011 comprised as follows:

	Group 2012	Company 2012	Group 2011	Company 2011
Income tax expense components:				
Current income tax	7,395	5,935	14,215	12,512
Adjustment of previous year income tax	(1,329)	(1,329)	(8,621)	(8,621)
Deferred income tax (income)/expense	3,107	4,504	(4,845)	(3,056)
Income tax expense for the reporting period	**9,173**	**9,110**	**749**	**835**

*Adjustment of previous year income tax is related to the investment relief applied to taxable profit for 2012 and 2011.

23 Income tax (continued)

Movements in deferred income tax assets and liabilities during the reporting period are as follows:

Group	PP&E revaluation (impairment)	Bad debts	Accrued charges	Impairment of assets	Total
Deferred income tax assets					
At 31 December 2010	**165,032**	**1,850**	**7,545**	**491**	**174,918**
Recognised in the statement of comprehensive income	(6,472)	133	716	(644)	(6,267)
Acquisition of subsidiary	-	-	214	-	214
Recognised in the statement of changes in equity	-	-	-	351	351
At 31 December 2011	**158,560**	**1,983**	**8,475**	**198**	**169,216**
At 31 December 2011	**158,560**	**1,983**	**8,475**	**198**	**169,216**
Recognised in the statement of comprehensive income	(6,997)	(21)	(5,861)	(42)	(12,921)
At 31 December 2012	**151,563**	**1,962**	**2,614**	**156**	**156,295**

Group	PP&E revaluation (impairment)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Other	Total
Deferred income tax liabilities					
At 31 December 2010	**(290,618)**	**(3,081)**	**(9,596)**	**(107)**	**(303,402)**
Recognised in the statement of comprehensive income	11,573	1,376	(1,870)	33	11,112
Acquisition of subsidiary	(1,287)	-	-	-	(1,287)
Recognised in other comprehensive income	(989)	-	-	-	(989)
At 31 December 2011	**(281,321)**	**(1,705)**	**(11,466)**	**(74)**	**(294,566)**
At 31 December 2011	**(281,321)**	**(1,705)**	**(11,466)**	**(74)**	**(294,566)**
Recognised in the statement of comprehensive income	11,343	(2,009)	448	32	9,814
Recognised in other comprehensive income	93	-	-	-	93
At 31 December 2012	**(269,885)**	**(3,714)**	**(11,018)**	**(42)**	**(284,659)**

Net deferred income tax at 31 December 2010	**(128,484)**
Net deferred income tax at 31 December 2011	**(125,350)**
Net deferred income tax at 31 December 2012	**(128,361)**

23 Income tax (continued)

Company	PP&E revaluation (impairment)	Bad debts	Accrued charges	Impairment of assets	Total
Deferred income tax assets					
At 31 December 2010	**164,181**	**1,443**	**6,895**	**2,523**	**175,042**
Recognised in the statement of comprehensive income	(5,914)	-	586	(2,327)	(7,655)
At 31 December 2011	**158,267**	**1,443**	**7,481**	**196**	**167,387**
At 31 December 2011	**158,267**	**1,443**	**7,481**	**196**	**167,387**
Recognised in the statement of comprehensive income	(6,997)	-	(6,674)	(42)	(13,713)
At 31 December 2012	**151,270**	**1,443**	**807**	**154**	**153,674**

Company	PP&E revaluation (impairment)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Other	Total
Deferred income tax liabilities					
At 31 December 2010	**(289,269)**	**(3,152)**	**(9,486)**	**(104)**	**(302,011)**
Recognised in the statement of comprehensive income	10,982	1,566	(1,870)	33	10,711
Recognised in other comprehensive income	(398)	-	-	-	(398)
At 31 December 2011	**(278,685)**	**(1,586)**	**(11,356)**	**(71)**	**(291,698)**
At 31 December 2011	**(278,685)**	**(1,586)**	**(11,356)**	**(71)**	**(291,698)**
Recognised in the statement of comprehensive income	10,738	(2,009)	448	32	9,209
Recognised in other comprehensive income	-	-	-	-	-
At 31 December 2012	**(267,947)**	**(3,595)**	**(10,908)**	**(39)**	**(282,489)**
Net deferred income tax at 31 December 2010					**(126,969)**
Net deferred income tax at 31 December 2011					**(124,311)**
Net deferred income tax at 31 December 2012					**(128,815)**

23 Income tax (continued)

Deferred income tax assets and deferred income tax liabilities were offset in the Company's statement of financial position as they relate to the same fiscal authority. The Group's deferred income tax assets related to operations of subsidiaries were not offset against the Company's deferred income tax liabilities and were presented separately as non-current assets in the statement of financial position.

Deferred income tax recognised in the statement of financial position as at 31 December 2012 and 2011 comprised as follows:

	Group As at 31 December 2012	Company As at 31 December 2012	Group As at 31 December 2011	Company As at 31 December 2011
Deferred income tax assets	622	-	81	-
Deferred income tax liabilities	128,983	128,815	125,431	124,311
Deferred income tax liability, net	**128,361**	**128,815**	**125,350**	**124,311**

When calculating deferred income tax as at 31 December 2012 and 31 December 2011, income tax rate of 15 per cent was applied on those components which will be realised in 2013 and later periods.

The Company's and the Group's deferred income tax to be realised within 12 months amounts to LTL 4,700 thousand (31 December 2011: LTL 1,967 thousand).

As of 31 December 2012, the Group had LTL 7,077 thousand (31 December 2011: LTL 9,925 thousand) of accumulated unrealised tax losses on which no deferred tax asset was recognised. These tax losses are carried forward for indefinite period.

Income tax expense reported in the statement of comprehensive income relating to the result of operations during the current reporting period may be reconciled to income tax expense that would arise using the statutory income tax rate applicable to profit before income tax.

	Group 2012	Company 2012	Group 2011	Company 2011
Profit before income tax	**46,820**	**42,573**	**2,275**	**11,591**
Income tax at a tax rate of 15% (2011: 15%)	7,023	6,386	341	1,739
Adjustment of previous year income tax	(1,329)	(1,329)	(8,621)	(8,621)
Tax effects of non-taxable income and non-deductible expenses	3,388	4,053	7,708	7,717
Unrecognised deferred income tax on tax losses	91	-	1,321	-
Income tax	**9,173**	**9,110**	**749**	**835**

24 Trade payables

Trade payables of the Group and the Company are as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Amounts due for contractual works, other services	101,634	95,965	28,175	15,094
Payables for electricity and related services	30,233	25,474	35,964	35,974
Payables for gas and heavy fuel oil	4,342	4,342	21,763	21,763
Accrued liabilities for electricity	1,834	1,834	251	251
Payables for material valuables	515	515	30,677	30,677
Total	**138,558**	**128,130**	**116,830**	**103,759**

The fair values of trade payables approximate their carrying amounts.

25 Advance amounts received

The Group's and the Company's advance amounts received comprise as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Advance amounts of PSO service fees received (Note 22)	13,104	13,104	13,104	13,104
Other advance amounts received	2,283	1,931	1,928	1,781
Deferred income on contract works in progress	608	-	2,596	-
Total	**15,995**	**15,035**	**17,628**	**14,885**

26 Provisions for emission allowances

As at 31 December 2012 and 2011, provisions for emission allowances comprised as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Provision for onerous contract	-	-	-	-
Total	**-**	**-**	**-**	**-**

26 Provisions for emission allowances (continued)

Movement on current portion of provisions for emission allowances as at 31 December 2012 and 2011:

	Group	Company
Balance at 31 December 2010	**67,282**	**67,282**
Emission allowances utilised (Note 4)	(54,212)	(54,212)
Provisions for emissions	16,268	16,268
Current portion of provisions for onerous contract	32,593	32,593
Balance at 31 December 2011	**61,931**	**61,931**
Balance at 31 December 2011	**61,931**	**61,931**
Emission allowances utilised (Note 4)	(16,268)	(16,268)
Provisions for emissions	13,915	13,915
Provisions for onerous contract	12,824	12,824
Reversal of provisions for onerous contract	(58,487)	(58,487)
Balance at 31 December 2012	**13,915**	**13,915**

***** For the purpose of the statement of comprehensive income, expenses of provision for emission allowances utilised are reported net of government grants (Note 21).

27 Other accounts payable and liabilities

The Group's and the Company's other accounts payable comprise as follows:

	Group at 31 December 2012	Company at 31 December 2012	Group at 31 December 2011	Company at 31 December 2011
Accrued expenses from purchases of electricity	17,089	17,089	12,397	12,020
Derivative financial instrument	5,752	5,752	1,638	1,638
VAT payable	5,199	4,771	871	-
Employment-related liabilities	4,441	2,319	4,882	2,047
Vacation reserve	4,013	2,135	2,317	1,567
Taxes payable	3,327	3,064	2,183	1,886
Dividends payable	2,261	2,261	2,269	2,269
Other payables and current liabilities	2,203	1,441	1,401	1,340
Carrying amount	**44,285**	**38,832**	**27,958**	**22,767**

The fair values of other accounts payable approximate their carrying amounts.

Derivative financial instrument arrised from the agreement, which was concluded between Gazprom Marketing and Trading and the Company on 20 October 2010 regarding the Swap of EUA to CER. The fair value of the derivative financial instrument was estimated with respect to the market values of EUA and CER as at 31 December 2012.

28 Sales revenue

The Group's and the Company's sales revenue consists of revenue from sale of electricity and related services. Sales revenue for the periods ended 31 December is presented below:

	Group 2012	**Company 2012**	**Group 2011**	**Company 2011**
Sale of electricity in domestic market	1,162,530	987,578	1,230,003	1,221,421
Export of electricity	93,027	93,027	64,332	64,332
Capacity reserve	72,713	72,713	64,685	64,685
Revenue from sale of thermal energy	19,364	19,378	15,135	15,135
Total	**1,347,634**	**1,172,696**	**1,374,155**	**1,365,573**

29 Segment information

In 2012, the management distinguished operating segments based on the reports reviewed by the Board. The Board is the principal decision-making body on the Group level. With effect from 2012, the Board started analysing the operations in terms of profitability of the regulated activities and the commercial activities of the Company. Operating profit (loss) is a profitability measure analysed by the Board. The reports analysed by the Board are in line with the financial statements prepared in accordance with IFRSs, except for the format of presentation. Changes were made in segment information in view of how the Board analysed the Group's operations.

As of 31 December 2012 and 31 December 2011, the Group's management analysed the Group's operations by separating them into regulated activities and commercial activities. The regulated activities include the Reserve Power Plant's revenue from heat and electricity production, balancing and regulation, capacity reserve, including capacity reserve revenue of Kruonis Pumped Storage Power Plant. The commercial activities include electricity trade in a free market, export/import, electricity production at Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant, and the related balancing and regulation services. Administrative expenses are allocated between the regulated activities and the commercial activities based on operating expenses, headcount and sales. The operations of Energijos Tiekimas UAB representing electricity supply constitute a separate segment. Other activities within the Group included repair services of energy facilities and IT services.

Inter-company transactions within the Group are conducted at market prices, except for trade in electricity and related services, the prices of which are established by the National Control Commission for Prices and Energy.

29 Segment information (continued)

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

2012	**Electricity production and trade (including export/import)**			**Other activities**	**Total**
	Lietuvos Energija AB		**Energijos Tiekimas UAB**		
	Regulated activities	**Commercial activities**			
Total revenue of segments	596,657	579,934	328,920	106,391	1,611,902
Inter-segment revenue			(153,982)	(14,106)	(168,088)
Revenue from external customers	**596,657**	**579,934**	**174,938**	**92,285**	**1,443,814**
Expenses after elimination of inter-company transactions within the Group	**(597,749)**	**(527,590)**	**(174,826)**	**(87,994)**	**(1,388,159)**
Whereof: depreciation and amortisation expenses	(47,317)	(17,563)	-	(14,048)	(78,928)
Operating profit	**(1,092)**	**52,344**	**112**	**4,291**	**55,655**
Finance income after elimination of inter-company transactions within the Group	835	626	582	193	**2,236**
Finance (costs) after elimination of inter-company transactions within the Group	(12,517)	(937)	(96)	(207)	**(13,757)**
Share of results of operations of associates and joint ventures				2,686	**2,686**
Profit before income tax	**(12,774)**	**52,033**	**598**	**6,963**	**46,820**
Income tax					**(9,173)**
Net profit					**37,647**

29 Segment information (continued)

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

2011	Electricity production and trade (including export/import)			Other activities	Total
	Lietuvos Energija AB		Energijos Tiekimas UAB		
	Regulated activities	Commercial activities			
Total revenue of segments	541,035	848,018	211,397	62,155	1,662,605
Inter-segment revenue			(202,838)	(30,260)	(233,098)
Revenue from external customers	**541,035**	**848,018**	**8,559**	**31,895**	**1,429,507**
Expenses after elimination of inter-company transactions within the Group	**(633,086)**	**(740,821)**	**(2,827)**	**(39,612)**	**(1,416,346)**
Whereof: depreciation and amortisation expenses	(40,061)	(17,700)	-	(2,752)	(60,513)
Operating profit	**(92,051)**	**107,197**	**5,732**	**(7,717)**	**13,161**
Finance income after elimination of inter-company transactions within the Group		1,249	95	18	**1,362**
Finance (costs) after elimination of inter-company transactions within the Group	(5,660)	(254)	(76)	(210)	**(6,200)**
Share of results of operations of associates and joint ventures				(6,048)	**(6,048)**
Profit before income tax	**(97,711)**	**108,192**	**5,751**	**(13,957)**	**2,275**
Income tax					**(749)**
Net profit					**1,526**

The Company/Group exports electricity to the EU Member States and Russia. Also, the Group exported metal constructions and repair services.

As at 31 December 2012 and 31 December 2011, the Group's and the Company's revenue by country was as follows:

Country	Group 2012	Company 2012	Group 2011	Company 2011
Lithuania	1,287,403	1,021,980	1,352,864	1,324,721
Estonia	10,429	10,015	37,124	31,120
Latvia	53,606	53,579	35,676	33,212
Norway	90,585	90,585	227	-
Other	1,791	432	3,616	-
Total	**1,443,814**	**1,176,591**	**1,429,507**	**1,389,053**

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

29 Segment information (continued)

Group revenues from customers which represent 10% of more of the total revenues are as follows:

2012	Electricity production and trade (including export/import)			Other activities	Total
	Lietuvos Energija AB		Energijos Tiekimas UAB		
	Regulated activities	Commercial activities			
Litgrid, AB	381,614	-	-	27,744	**409,358**
Lesto, AB	512,197	-	-	27,406	**539,603**
Total	**893,811**	**-**	**-**	**55,150**	**948,961**

2011	Electricity production and trade (including export/import)			Other activities	Total
	Lietuvos Energija AB		Energijos Tiekimas UAB		
	Regulated activities	Commercial activities			
Litgrid, AB	305,320	-	-	34,676	**339,996**
Lesto, AB	594,748	-	-	25,086	**619,834**
Total	**900,068**	**-**	**-**	**59,762**	**959,830**

30 Other operating income

As at 31 December 2012 and 31 December 2011, the Group's and the Company's other operating income comprised as follows:

	Group 2012	Company 2012	Group 2011	Company 2011
Repairs, data transmission and other services	86,638	-	53,726	-
Other income	9,542	3,895	1,348	1,635
Gain on disposal of property, plant and equipment	-	-	278	278
Gain on disposal of investments	-	-	-	21,567
Total	**96,180**	**3,895**	**55,352**	**23,480**

On 23 December 2011, the Company and Technologijų ir Inovacijų Centras UAB signed an Agreement for the Subscription of Shares, based on which Lietuvos Energija AB subscribed for 32,163,004 newly issued ordinary registered shares of Technologijų ir Inovacijų Centras UAB with par value of LTL 1 each. The total issue price was equal to LTL 34,414 thousand and it was paid by in-kind contribution of 12,847,295 ordinary registered intangible shares of Data Logistics Center UAB with par value of LTL 1 each, which made up 100% of the latter company's authorised share capital, with the carrying amount of LTL 12,847 thousand as at 31 December 2011. The difference between the selling price and carrying amount of Data Logistics Center UAB was recognised as gain on disposal of investments.

30 Other operating income (continued)

Income from repair services represents income received by subsidiary Kauno Energetikos Remontas UAB under the contracts concluded (the Company had no income under the contracts). Information about contract works in progress as at 31 December 2012 and 31 December 2011 is presented in the table below:

	At 31 December 2012	At 31 December 2011
Expenses recognised on contract works in progress	34,903	25,070
Profit recognised (less loss) on contract works in progress	5,751	3,836
Total income recognised on contract works in progress	40,654	28,906
Accumulated loss arising on the completion of contract works in progress	-	-
Total amount billed on contract works in progress	41,122	30,698
Accrued income on contract works in progress	136	750
Deferred income on contract works in progress	603	2,542

31 Finance income

As at 31 December 2012 and 31 December 2011, the Group's and the Company's finance income comprised as follows:

	Group 2012	Company 2012	Group 2011	Company 2011
Interest income	550	724	996	988
Other income	1,408	775	352	595
Foreign exchange positive effect	278	277	14	1
Dividends	-	3,000	-	774
Total finance income	**2,236**	**4,776**	**1,362**	**2,358**

32 Finance costs

As at 31 December 2012 and 31 December 2011, the Group's and the Company's finance costs comprised as follows:

	Group 2012	Company 2012	Group 2011	Company 2011
Interest expense *	(9,148)	(8,971)	(3,223)	(3,078)
Expenses of derivative financial instruments	(4,114)	(4,114)	(2,492)	(2,492)
Foreign exchange negative effect and other expenses	(197)	(188)	(353)	(343)
Other finance costs	(298)	(181)	(132)	-
Total finance costs	**(13,757)**	**(13,454)**	**(6,200)**	**(5,913)**

* In addition to interest expense recognised as finance costs as disclosed in Note 5, the Group's interest expenses capitalised as part of property, plant and equipment amounted to LTL 22,710 thousand (2011: LTL 30,764 thousand).

33 Related-party transactions

Purchase and sale of goods and services:

The Group's transactions with related parties during 2012 and the balances arising on these transactions as at 31 December 2012 are presented below:

Related parties	**Payables and accrued expenses**	**Receivables and unbilled revenue**	**Purchases**	**Sales**
Entities controlled by the Ministry of Economy of the Republic of Lithuania (including subsidiaries of Visagino Atominė Elektrinė UAB)	27	43,270	2,198	541,996
Litgrid AB group	7,428	33,709	351,032	627,411
Visagino Atominė Elektrinė UAB	-	68	-	563
Associates of the Group	1,342	313	12,820	2,476
Total	**8,797**	**77,360**	**366,050**	**1,172,446**

*BALTPOOL UAB does not recognise electricity purchases and sales as income and expense. During 2012, the Group's sales of electricity to BALTPOOL UAB amounted to LTL 81,270 thousand and purchases of electricity amounted to LTL 243,688 thousand.

The Company's transactions with related parties conducted during 2012 and the balances arising on these transactions as at 31 December 2012 are presented below:

Related parties	**Payables and accrued expenses**	**Receivables and unbilled revenue**	**Purchases**	**Sales (including dividends received)**
Subsidiaries of the Company	3,426	20,551	13,687	156,925
Entities controlled by the Ministry of Economy of the Republic of Lithuania (including subsidiaries of Visagino Atominė Elektrinė UAB)	8	39,971	234	512,197
Litgrid AB group	6,541	25,305	257,873	598,596
Visagino Atominė Elektrinė UAB	-	-	-	-
Associates of the Company	62	-	8,365	7
Total	**10,037**	**85,827**	**280,159**	**1,267,725**

* BALTPOOL UAB does not recognise electricity purchases and sales as income and expense. During 2012, the Company's sales of electricity to BALTPOOL UAB amounted to LTL 81,270 thousand and purchases of electricity amounted to LTL 157,051 thousand.

The Group's transactions with related parties during 2011 and the balances arising on these transactions as at 31 December 2011 are presented below:

Related parties	**Payables and accrued expenses**	**Receivables and unbilled revenue**	**Purchases**	**Sales**
Entities controlled by the Ministry of Economy of the Republic of Lithuania (including subsidiaries of Visagino Atominė Elektrinė UAB)	630	45,471	2,233	563,202
Litgrid AB group	10,990	43,419	536,525*	626,505*
Visagino Atominė Elektrinė UAB	70	-	-	393
Associates of the Group	1,216	326	2,268	1,892
Total	**12,906**	**89,216**	**541,026**	**1,191,992**

**BALTPOOL UAB does not recognise electricity purchases and sales as income and expense. During 2011, the Group's sales of electricity to BALTPOOL UAB amounted to LTL 217,695 thousand and purchases of electricity amounted to LTL 489,180 thousand.

34 Related-party transactions (continued)

The Company's transactions with related parties conducted during 2011 and the balances arising on these transactions as at 31 December 2011 are presented below:

Related parties	**Payables and accrued expenses**	**Receivables and unbilled revenue**	**Purchases**	**Sales**
Subsidiaries of the Company	6,830	24,633	8,037	202,980
Entities controlled by the Ministry of Economy of the Republic of Lithuania (including subsidiaries of Visagino Atominė Elektrinė UAB)	10	43,798	139	594,751
Litgrid AB group	10,118	37,658	531,073*	590,913*
Visagino Atominė Elektrinė UAB	-	-	-	-
Associates of the Company	226	-	2,175	494
Total	**17,184**	**106,089**	**541,424**	**1,389,138**

* BALTPOOL UAB does not recognise electricity purchases and sales as income and expense. During 2011, the Company's sales of electricity to BALTPOOL UAB amounted to LTL 217,695 thousand and purchases of electricity amounted to LTL 489,180 thousand.

The major sale and purchase transactions with related parties within the Group in 2012 and 2011 comprised transactions with the entities controlled by the Ministry of Economy of the Republic of Lithuania: Lesto AB, Litgrid AB. The Group's purchases from these entities mainly included purchases of electricity, capacity, and PSO services. Sales transactions mainly included sales of electricity, capacity, electricity transmission services and PSO services.

Transactions with state-owned entities other than those controlled by the Ministry of Energy included regular business transactions and therefore they are not disclosed.

The Company sold capacity to its associate Nordic Energy Link AS, paid capacity, operation, transmission and balancing fees to this company, and purchased capacity from it.

There were no guarantees or pledges given or received in respect of the related-party payables and receivables, except for guarantees to the associate and the subsidiaries as disclosed in Note 36. Related-party payables and receivables are expected to be settled in cash or offset against payables/receivables to/from a respective related party.

Compensation to key management personnel

	Group 2012	**Company 2012**	**Group 2011**	**Company 2011**
Employment-related payments *	4,133	1,533	4,350	1,701
Termination benefits	114	-	143	31
Other significant payments to key management personnel	-	-	-	-
Number of key management personnel *	27	10	31	11

*Employment-related payments of Technologijų ir Inovacijų Centras UAB and Respublikinis Energetikų Mokymo Centras VŠĮ presented in 2011 and number of key management personnel at the end of the reporting period.

Key management personnel in the table above are heads of administration and their deputies, and the chief financial officer.

35 Basic and diluted earnings per share (in LTL)

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

	2012	**2011**
Net profit for the year attributable to the owners	36,100	1,526
Weighted average number of shares (units)	635,083,615	635,083,615
Basic and diluted earnings per share (in LTL)	0.06	0.00

36 Financial risk management

In performing their activities, the Group companies are exposed to financial risks, i.e. credit risk, liquidity risk and market risk (foreign exchange risk, fair value interest rate risk and cash flows interest rate risk, and securities price risk). In managing these risks, the Group companies seek to mitigate the effect of factors which could have an adverse impact on the financial performance of the Group and the Company.

Financial instruments by category

Financial assets	**Group at 31 December 2012**	**Company at 31 December 2012**	**Group at 31 December 2011**	**Company at 31 December 2011**
Trade receivables	288,855	253,916	233,479	207,498
Other receivables	11,102	10,858	3,282	9,016
Cash and cash equivalents	34,345	8,157	27,907	8,281
Other non-current accounts receivable	10,927	10,927	1,426	1,426
Loans and receivables	**345,229**	**283,858**	**266,094**	**226,221**
Other financial assets	20	-	267	-
Financial assets at fair value through profit and loss	**20**	**-**	**267**	**-**
Total	**345,249**	**283,858**	**266,361**	**226,221**

Financial liabilities	**Group at 31 December 2012**	**Company at 31 December 2012**	**Group at 31 December 2011**	**Company at 31 December 2011**
Borrowings	678,779	660,590	642,166	640,997
Finance lease liabilities	371	-	903	-
Other non-current payables	4,466	4,315	4,840	4,840
Trade payables	138,558	128,130	116,830	103,759
Other accounts payable and liabilities	21,553	20,791	16,067	15,629
Financial liabilities measured at amortised cost	**843,727**	**813,826**	**780,806**	**765,225**
Other financial liabilities	-	-	-	-
Derivative financial instruments at fair value through profit and loss	**5,752**	**5,752**	**1,638**	**1,638**
Total	**849,479**	**819,578**	**782,444**	**766,863**

Credit risk

As at 31 December 2012 and 31 December 2011, items exposed to credit risk were as follows:

	Group at 31 December 2012	**Company at 31 December 2012**	**Group at 31 December 2011**	**Company at 31 December 2011**
Financial assets	345,249	283,858	266,361	226,221
Guarantees	259	259	472	472
Total	**345,508**	**284,117**	**266,833**	**226,693**

The maximum exposure to credit risk is equal to the carrying amount of each financial asset and the total amount of guarantees issued to the associate and the subsidiaries (Note 37).

The credit risk of the Group and the Company related to the accounts receivable is limited because the major buyers are reliable customers. As of 31 December 2012 and 31 December 2011, trade receivables neither past due nor impaired were of high credit quality as the majority of these receivables were due from operators of the distribution network and large industrial companies. The Group and the Company are exposed to significant credit risk concentration, because credit risks are shared among 7 main customers, which account for approximately 85 per cent of total trade receivables of the Group and the Company.

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

The Group and the Company hold cash balances and term deposits in accounts of the major banks in Lithuania assigned with 'A-' and higher external credit rating by the rating agency Fitch Ratings.

36 Financial risk management (continued)

Liquidity risk

The liquidity risk is managed by planning the cash flows of the Group. In order to manage the liquidity risk, cash flow forecasts are prepared. Overdraft and credit line agreements are used to manage the difference between the risks of late collection of receivables and the short-term cash flows (inflows and outflows). Undrawn balances of loans are disclosed in Note 19.

The Group's current liquidity (total current assets / total current liabilities) and quick liquidity ((total current assets – inventories) / total current liabilities) ratios as of 31 December 2012 were 1.23 and 1.04, respectively (31 December 2011: 0.65 and 0.45, respectively). The Company's current liquidity (total current assets / total current liabilities) and quick liquidity ((total current assets – inventories) / total current liabilities) ratios as of 31 December 2012 were 1.13 and 0.93, respectively (31 December 2011: 0.6 and 0.39, 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 cover the liabilities. Balances with repayment terms up to 12 months approximate their carrying amounts, because the impact of discounting is insignificant.

Group	**Within the first year**	**Within the second year**	**Within the third–fifth year**	**After five years**
At 31 December 2012				
Borrowings	149,749	78,523	388,555	172,929
Finance lease liabilities	331	47	-	-
Trade and other accounts payable	160,833	936	936	1,872
At 31 December 2011				
Borrowings	72,009	89,998	435,579	225,086
Finance lease liabilities	596	322	-	-
Trade and other accounts payable	133,681	312	936	2,808

Company	**Within the first year**	**Within the second year**	**Within the third–fifth year**	**After five years**
At 31 December 2012				
Borrowings	139,335	77,148	381,432	172,929
Trade and other accounts payable	149,492	936	936	1,872
At 31 December 2011				
Borrowings	70,840	89,998	435,579	225,086
Trade and other accounts payable	120,172	312	936	2,808

Interest rate risk

Revenues and cash flows of the Group companies are affected by fluctuations in market interest rates as all borrowings of the Group companies were subject to variable interest rates as of 31 December 2012. Increase in interest rate risk is mostly affected by non-current borrowings. All borrowings bear variable interest rates which are linked with LIBOR-EUR. Intervals of repricing of interest rates are disclosed in Note 19.

If interest rates on withdrawn balances of borrowings of the Group companies had been higher/lower by 1 p.p., net profit for the year 2012 would have been LTL 2,425 thousand (2011: LTL 1,676 thousand) lower/higher. If interest rates on withdrawn balances of borrowings of the Company had been higher/lower by 1 p.p., net profit for the year 2012would have been LTL 2,380 thousand (2011: LTL 1,674 thousand) lower/higher.

Foreign exchange risk

The Group companies conduct certain transactions that are denominated in foreign currencies. This leads to the concentration of foreign exchange risk.

With effect from 1 February 2002, the exchange rate of the litas is pegged to the euro. As a result, changes in exchange rates of the euro do not have a significant impact on the Company's equity. As of 31 December 2012, the Company/Group did not have any significant assets or liabilities denominated in currencies other than the litas and the euro.

The Group companies did not use any financial instruments to manage foreign exchange risk.

36 Financial risk management (continued)

Securities price risk

The Company has direct control over the subsidiaries and take part in management of associates (Note 7). In the Company's separate financial statements, investments in these companies are accounted for at acquisition cost, which is adjusted by impairment losses, if any. Investments in associates in the Group's consolidated financial statements are accounted for using the equity method by adjusting their carrying amounts by the Group's share of profits or losses. The increase/decrease in the carrying amount of these investments directly affects the financial results of the Group. The Company impacts the results of its subsidiaries and associates by taking part in the formation of the management policy of operations of these companies.

Fair value of financial assets and liabilities

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

The fair value of the Group's financial assets at fair value through profit or loss is based on the prices in an active market.

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 assets and liabilities:

- The carrying amount of cash and cash equivalents, current trade and other accounts receivable, current trade and other accounts payable and current borrowings approximates their fair value.

- The fair value of non-current borrowings is based on the quoted market price for the same or similar loan or on the current rates available for loan with the same maturity profile. The fair value of a non-current borrowing bearing variable interest rates approximates its carrying amount, provided that the margin on such loan corresponds to margins currently prevailing in the market.

37 Off-balance sheet commitments and contingencies

Guarantees issued and received

In 2005, the Company guaranteed under the guarantee agreements the fulfilment of 25 per cent of liabilities of Nordic Energy Link AS to Nordic Investment Bank (LTL 45,750 thousand) and to SEB Eesti Uhispank AB (LTL 26,759 thousand). The guarantees will expire upon a full repayment of the loans by the associate to the respective banks, i.e. on 15 March 2014 and 15 September 2014, respectively. The Group/Company accounted for these guarantees at fair value. The carrying amount of the guarantee obligations amounted to LTL 259 thousand as of 31 December 2012 (31 December 2011: LTL 472 thousand). The Group/Company did not account for any additional provisions related to these guarantees, since management expects that the associate will fulfil its liabilities to the banks.

In order to ensure the fulfilment of obligations, the power exchange participants are required to present to BALTPOOL UAB the bank guarantee on the fulfilment of their obligations not later than 10 (ten) working days before the commencement date of the trading session at the power exchange and/or provide a cash deposit. As of 31 December 2011, a cash deposit provided by the Company to BALTPOOL UAB amounted to LTL 500 thousand. In 2012 as a result of change of market operator, the Company had no cash deposit provided to BALTPOOL UAB. As of 31 December 2011, the bank guarantees presented to BATLPOOL UAB amounted to LTL 5,400 thousand.

As of 31 December 2012, the support letter was submitted by the Company to Danske Bank A/S Lithuania branch in relation to a guarantee of LTL 3,000 thousand and an overdraft limit of LTL 15,000 thousand that were granted to Energijos Tiekimas UAB by the Bank.

On 18 April 2011, the Company entered into guarantee agreement with Nordea Bank Finland Plc Lithuania branch in relation to issue of guarantee for the amount of EUR 1,766 thousand under the guarantee agreement concluded by Kauno Energetikos Remontas UAB on 18 January 2007. Under this agreement, Lietuvos Energija AB guaranteed an appropriate fulfilment of obligations of Kauno Energetikos Remontas UAB, but not in excess of EUR 1,766 thousand.

As of 31 December 2012, the guarantee was granted by the Company to Nordea Bank Finland Plc Lithuania branch to provide an irrevocable and unconditional guarantee in favour of Kauno Energetikos Remontas UAB for the payment of EUR 1,883 thousand upon the initial written request by the Bank.

As of 31 December 2012, the Company and Nordea Bank Finland Plc had an agreement on bank guarantee in relation to EUR 1,281 thousand guarantee issued by the Bank, the amount of which may be increased up to EUR 1,500 thousand upon the Company's request. The beneficiary of the guarantee is General Electric International Inc.

Operating lease

The subsidiary Technologijų ir Inovacijų Centas UAB has operating lease agreements for motor vehicles and administrative premises. These agreements provide for the right to change the scope of services rendered, as well as to terminate the agreement with at least 3 months prior notice to the lessee without incurring any additional financial obligations. Infrastructural assets (data centers, technological facilities, infrastructure and communication channels) necessary for the provision of IT services are leased from related parties and third parties:

	2012	**2011**
Lease of infrastructure and related expenses	6,917	5,178
Lease of premises and related expenses	4,122	2,391
Lease of motor vehicles and fuel expenses	1,193	1,282

Lease expenses of infrastructure mostly comprise lease of optical fibre from LITGRID AB. The agreement is valid from 29 April 2011 to 29 April 2026, however, the Company has a right to terminate it with prior notice of 12 months.

Tax audits

The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year inspect the books and accounting records and impose additional taxes or fines. The Group's/Company's management is not aware of any circumstances that might result in a potential material liability in this respect.

38 Capital management

Capital consists of the total amount of equity reported in the statement of financial position.

The Group and the Company manage the capital structure and make adjustments to it in the light of changes in economic conditions and the operating risks. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, repay capital to shareholders or issue new shares. No changes were made concerning risk management objectives, policies or processes during the periods ended 31 December 2012 and 31 December 2011.

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

39 Events after the end of the reporting period

For the purpose of implementing Lithuanian Government's Resolution No. 141 of 13 February 2013 *On the transfer of state-owned shares, and amendment to the Lithuanian Government's Resolution No.* 826 of 4 July 2012 *On the establishment of a private limited liability company and investment of state-owned capital,* on 26 February 2013 4,067,163,632 ordinary registered intangible shares of Visagino Atominė Elektrinė UAB with the nominal value of LTL 1 each (that had been formerly owned under the title by state and had been held in trust by the Ministry of Economy) were transferred to the Ministry of Finance, which entitle to 100% votes during the general shareholders meeting of Visagino Atominė Elektrinė UAB. Currently, the ownership interest of Visagino Atominė Elektrinė UAB in Lietuvos Energija AB is 96.13%.

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