Visagino atominė elektrinė UAB

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011,

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union and ANNUAL REPORT
presented together with the independent auditor's report

CONTENTS

This version of our report is a translation from the original, which was prepared in Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent Auditor's Report

To the shareholders of Visagino atominė elektrinė UAB

Report on the financial statements

We have audited the accompanying stand alone and consolidated financial statements (together 'the Financial statements') of Visagino atominė elektrinė UAB ('the Company') and its subsidiaries (collectively 'the Group') set out on pages 24-78 which comprise the stand alone and consolidated statement of financial position as of 31 December 2011 and the stand alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Basis for Qualified Opinion – Material Misstatement

According to the Group's accounting policy, property, plant and equipment, except for Power Plants, should be carried at revalued amounts (being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses) and are subject to an impairment test when impairment indicators exist. As explained in Note 4 to the financial statements, the amendments to the legislation may have a significant adverse impact on the fair value and recoverable amount of the Group's assets. The Group's management has not reassessed fair values of property, plant and equipment with the carrying amounts of LTL 7,848 million as of 31 December 2011 (LTL 7,763 million as of 31 December 2010), or carried out a proper impairment test. It has not been possible to estimate reliably the financial effects of this non-compliance.

Basis for Qualified Opinion – Scope Limitation

Property, plant and equipment of Power Plants are carried at cost, less accumulated depreciation and impairment losses. As at 31 December 2011 and 31 December 2010 the Group has accounted for property, plant and equipment of Power Plants amounting to LTL 1,331 million and LTL 1,371 million respectively using the estimated useful lives which have not been reviewed since 2004. The Group is operating in an industry experiencing rapid technological change and therefore the estimated useful lives of property, plant and equipment should be reviewed on a regular basis as required by IAS 16 *Property, plant and equipment*. Also, the Group has not estimated whether the recoverable amount of the above mentioned assets is not less than its carrying amount as required by IAS 36 *Impairment of assets*. It has not been possible to estimate reliably the financial effects of this non-compliance.

The Group accounts for goodwill and licenses with infinite useful lives amounting to LTL 178 million and LTL 118 million as of 31 December 2011 and 2010, at acquisition cost less impairment charge. These assets are subject to an annual impairment test. As explained in Note 4 to the financial statements, the amendments to the legislation may have a significant adverse impact on the recoverable amount of these assets. The Group's management was not able to reassess recoverable amounts of the goodwill and licenses with infinite useful lives as at 31 December 2011 and 2010. It has not been possible to estimate reliably the financial effects of this non-compliance.

The Company accounts for investments in subsidiary companies at cost less impairment charge. As explained in Note 4 to the financial statements the amendments to the legislation may have a significant adverse impact on the recoverable amount of investments in subsidiaries. The Company's management was not able to reassess recoverable amounts of investments in subsidiary companies with the carrying amount of LTL 3,875 million as of 31 December 2010 and 2011. It has not been possible to estimate reliably the financial effects of this non-compliance.

Qualified Opinion

In our opinion, except for the effect of the matter referred to in the *Basis for Qualified Opinion – Material Misstatement* paragraph and except for the possible effects of the matters referred to in the *Basis for Qualified Opinion - Scope Limitation* paragraph, the accompanying Financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2011, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2011 set out on pages 6-23 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 2011.

UAB „PricewaterhouseCoopers“ vardu

Rimvydas Jogėla
Partner
Auditor’s Certificate No. 000457

Authorised to act for and on behalf of
PricewaterhouseCoopers, UAB based on the
Power of Attorney dated 16 June 2010

Vilnius, Republic of Lithuania
23 April 2012

CONSOLIDATED ANNUAL REPORT of UAB Visagino atominė elektrinė for the year 2011

The consolidated annual report of UAB Visagino atominė elektrinė (hereinafter referred to as VAE or the Company) and its subsidiaries (hereinafter the Company and its subsidiaries will be jointly referred to as the VAE Group or the Group) has been prepared in accordance with Article 25 of the Law on Financial Statements of Entities of the Republic of Lithuania, Article 9 of the Law on Consolidated Financial Statements of Entities of the Republic of Lithuania and the Guidelines on Assurance of State-Owned Enterprise Activity Transparency.

GENERAL INFORMATION

Reporting period covered by the annual report

The consolidated annual report of the Group covers the year 2011.

Basic information about the Company

Company's name	UAB „Visagino atominė elektrinė"
Registration number	301844044
Authorized capital	4 067 163 632 Lt
Paid authorized capital	4 067 163 632 Lt
Address	Žvejų Street 14, LT-09310, Vilnius, Lithuania
Phone	(8 5) 278 2998
Fax	(8 5) 278 2115
E-mail	info@vae.lt
Website	www.vae.lt
Legal form	Private limited liability company
Date of registration and register	28 August 2008, Register of Legal Entities
Register, where information about the Company is compiled and stored	Register of Legal Entities, state enterprise the Centre of Registers

Information about subsidiaries, branches and representative offices

The Group includes Visagino atominė Elektrinė UAB and subsidiaries directly or indirectly controlled by the Company.

Company name	Address of the registered office	Effective ownership interest as at 31 December 2011, %	Share capital (LTL thousand), as at 31 December 2011	Profile of activities
Lietuvos Energija, AB	Elektrinės 21 LT-26108, Elektrėnai	96,1	635 084	Electricity generation, export and trade
LITGRID AB	Juozapavičiaus g.13, Vilnius	97,5	504 331	Operator of electricity transmission system
LESTO AB	Žvejų g. 14, Vilnius	82,6	603 945	Electricity supply and distribution to end users
Technologijų ir Inovacijų Centras UAB	Žvejų g. 14, Vilnius	93,1	76 513	Maintenance of information technologies and telecommunications

Company name	Address of the registered office	Effective ownership interest as at 31 December 2011, %	Share capital (LTL thousand), as at 31 December 2011	Profile of activities
Energijos Tiekimas UAB	Jeruzalės g.21, Vilnius	96,1	750	Electricity supply
Kauno Energetikos Remontas UAB	Chemijos g. 17, Kaunas	96,1	14 245	Repair of energy equipment, production of metal structures
Gotlitas UAB (controlled through Kauno Energetikos Remontas UAB)	R.Kalantos g. 119, Kaunas	96,1	1 450	Accommodation services, trade
NT Valdos UAB	Geologų g. 16, LT-02190 Vilnius	88,3	309 663	Operation of real estate, other related activities and service provision
BALTPOOL UAB	Juozapavičiaus g.13, Vilnius	65,3	475	Electric power market operator
Public Institution republican Centre of Training for Energy Specialists	Jeruzalės g.21, Vilnius	93,1	294	Professional development and further training of energy specialists
TETAS UAB	Senamiesčio g.102 B, Panevėžys	91,7	5 651	Services of power network engineering, construction, repair, maintenance and customer connection to the grid
ELEKTROS TINKLO PASLAUGOS UAB	Motorų g. 2, Vilnius	86,9	16 388	Power network and related equipment repair and maintenance services
Data Logistics Center UAB	A. Juozapavičiaus g. 13, Vilnius	93,1	12 847	Data centre, data transmission, optical fibre lease and other telecommunication services

More information about the Group, is given in Note 1 of the audited consolidated annual financial statements for the year 2011.

During the period from 2010 to 2011 the state-owned Lithuanian electricity sector underwent reorganization, in which the activities of production, transmission and distribution of electricity were rectified and separated from each other in line with the requirements of the European Union's third package for electricity and gas markets. The state-owned group of electricity companies comprised the following:

- UAB Visagino atominė elektrinė, operating as a holding company of the Group's companies, and as a new company of the nuclear power plant project. 100 per cent of UAB Visagino atominė elektrinė shares are controlled by the Ministry of Energy of the Republic of Lithuania.
- Lietuvos energija, AB is Lithuania's main producer of electric power and unites all state-owned electricpowerproduction facilities: Elektrėnai Thermal Power Station (hereinafter referred to as the Lithuanian Power Plant), Kruonis Hydro Pumped Stored Plant and Kaunas Hydroelectric Power Plant. Lietuvos energija, AB is also engaged in the supply, import and export of electricity and related sales activities.
- LITGRID AB is an operator of Lithuania's electricity transmission system. It controls energy flows and maintains smooth operation of Lithuania's entire electricity system. On the basis of the Law on Electricity of the Republic of Lithuania, which implements the requirements of the European Union's third package for electricity and gas markets, this company will be separated from the VAE Group's companies in 2012.
- LESTO AB is an operator of Lithuania's power distribution networks. The company transmits electricity via distribution networks and functions as a public supplier and supplier of last resort. In Lithuania, LESTO AB provides services to approximately 1.5 mln. consumers.
- Service companies, whose activities are necessary to ensure efficient production, supply, transmission and distribution of electricity.

The main activities of the Group's companies are presented in the table above.

Information about contracts between the Issuer and securities' public offering agents

UAB Visagino atominė elektrinė has not concluded any contracts with securities' public offering agents as its securities are not traded on the stock exchange.

The Group's companies:

Lietuvos energija, AB

Lietuvos energija, AB has concluded a contract for handling the accounting of securities issued by the issuer and handling of personal securities accounts with Swedbank, AB.

LITGRID AB

On 25 October 2011, LITGRID AB signed a contract with SEB bank AB regarding the securities' accounting and any services related to the securities account.

LESTO AB

LESTO AB has authorized Swedbank, AB to handle its securities accounts.

Trading of the securities of the Group's companies on regulated markets

Lietuvos energija, AB

On 1 September 2011, the shares of Lietuvos energija, AB were included in the Official Trading List of NASDAQ OMX Vilnius. The company's shares are being traded on the NASDAQ OMX Vilnius (hereinafter VVPB) stock market.
On 31 December 2011, the company had 635,083,615 ordinary registered shares issued with a nominal value of one litas per share.
ISIN number of the issue: LT0000128571.

LITGRID AB

Since 22 December 2010 the shares of LITGRID AB have been included in the Additional Trading List of the NASDAQ OMX Vilnius stock exchange.
On 31 December 2011, the company had 504,331,380 ordinary registered shares issued with a nominal value of one litas per share.
ISIN number of the issue: LT0000128415.

LESTO AB

Since 17 January 2011 the ordinary registered shares of LESTO AB have been included in the Official Trading List of NASDAQ OMX Vilnius.
On 31 December 2011, the company had 603,944,593 ordinary registered shares issued with a nominal value of one litas per share.
ISIN number of the issue: LT0000128449.

OVERVIEW OF THE ACTIVITIES

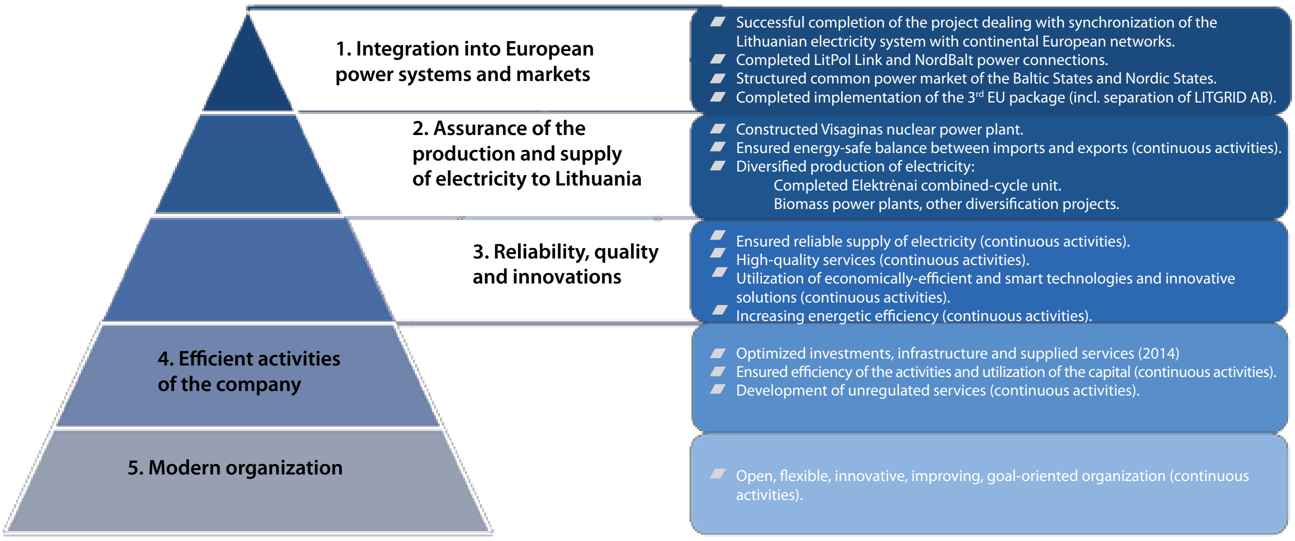
Strategy and goals of the Company's and Group's activities

As one of Lithuania's biggest state-owned companies, the VAE Group plays a key role in implementing the goals of the national energy strategy; in line with this, the VAE Group will seek to harmonize the long-term strategic development of individual companies. This will help improve operating results and make it possible to achieve national energy goals.

The mission of the VAE Group is to ensure the safe, reliable and high-quality supply of electricity and related services.

The VAE Group's vision is to become a reliable and main electricity producer and supplier in Lithuania and an advanced, efficient and environment-friendly group of companies.

To achieve its vision, the VAE Group has identified the following five main strategic objectives for the period from 2012 to 2020:



The first strategic objective of the VAE Group: integration into European power systems and markets is important to Lithuania because:

- Being part of a large electricity market makes it possible to use network and generation infrastructure more efficiently;
- State power safety is ensured;
- Dependence on a single supplier of energy sources decreases; there is a decreased risk of price fluctuations in power and energy sources, which do not depend on the market;
- It is a significant step towards a common European Union strategic goal – a single power market.

In line with this strategic aim, the VAE Group has identified the following main projects (and objectives):

- Inter-systemic connection with Sweden;
- Inter-systemic connections with Poland (LitPol Link I and LitPol Link II);
- Synchronous connection to continental European networks;
- Integration of the Lithuanian electric-power market into the common market of the Baltic States and other European markets.

Achievement of these goals is evaluated by considering compliance with planned project-implementation terms and investment sizes.

The second strategic objective of the VAE Group: to ensure electricity production and supply to Lithuania. In order to become the country's main electricity producer and supplier and ensure reliability, the VAE Group provides the opportunity to trade safely in electricity with reliable partners. The Group also offers sufficient and competitive power-production capabilities, which are obligatory preconditions for integration into European networks (connecting parties must demonstrate their capacity to function in an isolated regime). To satisfy the expectations of Lithuanian consumers and become an equivalent participant in the European Union electric-power market, the Group intends to produce sufficient electricity in compliance with requirements for competitive and smooth development. The VAE Group has identified the following main strategic projects (and objectives) in this area:

- Construction of Visaginas nuclear power plant;
- Diversification of electricity production in terms of efficiency and energy sources through use of up-to-date technologies, producing less pollution and heat, i.e. completion of the construction of the 9th unit in Elektrėnai (combined cycle), construction of the biomass power plant in Elektrėnai and implementation of other projects;
- Assurance of energy-safe electric-power production and import balance.

Achievement of these goals is assessed by considering compliance with established project-implementation terms, chosen energy production diversification projects, economic efficiency criteria, fuel-type diversification level, the diversification level of electricity import sources and development of utilization of renewable energy sources.

The third strategic objective of the VAE Group: to ensure reliability and high-quality services, constant development of corporate activities and introduction of innovations. The quality of the VAE Group's electricity supply services is equal to, and in some areas even exceeds, the average of the indicators of the main European Union electricity network operators. The main goal of the VAE Group between 2012 and 2020 is to maintain this quality level and optimize investments in maintenance and development of transmission and distribution networks, especially the construction plans of plants using renewable energy sources. In order to retain present retail market share in a competitive climate, up-to-date, innovative and customer-oriented services are highly relevant because they increase consumer satisfaction and generate potential for extra income.

The main objectives of this strategic goal are the following:

- To ensure network reliability and high-quality services via rational investments;
- To maintain a leading position as an electricity retailer under market conditions, and to offer up-to-date, customer-oriented and environment-friendly services;
- To increase energy efficiency.

Achievements of goals involving reliability, quality and innovation are measured by evaluating indicators related to electricity transmission and distribution via networks and results of customer-satisfaction surveys. Investment achievements are evaluated by considering the economic efficiency of technology implementation projects. Achievements of energy efficiency goals are assessed by considering the results of established projects.

The fourth strategic objective of the VAE Group: to increase the efficiency of activities of the Group of companies. Increased efficiency is understood as a dynamic continuous process in the value development chain (i.e. both the main and supplementary companies must always increase the efficiency of their activities). The following main efficiency development areas have been identified:

- Decrease in expenditure related to the supplied services (by optimizing the utilization of information technologies and telecommunications, automation and other innovations);
- Development of unregulated activities/services by using present sources and infrastructure.

The main objectives of this strategic aim are as follows:

- Optimization of infrastructure, investments and main activity processes;
- Development of unregulated services.

These achievements are evaluated by considering financial indicators signalling an increase in value of the companies.

The fifth strategic objective of the VAE Group: the Group's development as an advanced, efficient and dynamic organization. This goal encompasses the training of personnel and associated competencies, internal and external communication, organization and coordination of common activities of the VAE Group. The main principles on which the new culture of the Group is being formed are: flexibility; inclination to innovate; constant development and results-orientation. Evaluation of the achievement of this strategic goal will be based on quantitative and qualitative research of the company's popularity and staff opinion polls.

The activities of the VAE Group are based on the following main values:

Professionalism – we are professionals in the area, and we constantly deepen our knowledge, improve our qualifications and strive for the best results;
Responsibility – we are responsible and reliable partners for you;
Cooperation – we work as a team and enjoy our joint achievements;
Innovation – we always progress and initiate relevant changes;
Respect – we respect our environment and its members.

Activities of the Company and the Group within the reporting period and compliance of results with the corporate activity goals

The Company is mainly engaged in two activities: first, preparation for the construction of Visaginas nuclear power plant (hereinafter referred to as Visaginas NPP) in Visaginas, including participation searching for investors in the project, negotiations with regional partners and strategic investors and drafting of various project contracts. The Company analyses the present legal framework and investment environment, and makes and submits relevant offers and projects to responsible authorities to create the appropriate legal framework and investment environment. These preparatory works are necessary to ensure timely project implementation.

The Company's second area of activities involves the implementation of its management functions to ensure reliable and efficient activities of its controlled companies and the electricity sector.

The Company successfully executes the preparatory works for the construction of Visaginas NPP and attracts investors to the project. When implementing the reorganization plan of the Lithuanian electricity sector, the Company and its subsidiaries implement plans for a continuous increase in activity efficiency. During the year 2011, the VAE Group companies reduced their operating expenditure by more than 77 million litas, or 14 per cent.

On 28 June 2011, the Parliament of Lithuania adopted a set of amendments to 12 laws governing nuclear energy, which are very important for development of the Visaginas NPP project. As a result, licensing activities for nuclear power and the issuance of permits have become more efficient and transparent, thereby increasing the protection of state interests in the nuclear power sector.

In July 2011, upon analysis of the offers of potential strategic investors, Japanese company HitachiLtd., along with its subsidiary Hitachi-GE Nuclear Energy, was selected as a strategic investor of Visaginas NPP. Subsequent to the selection, preparatory engineering works started in order to prepare the Concession Agreement. At the end of December the professionals of Hitachi and the Company successfully completed about 20 different technical projects, including analysis of the conditions of the construction site, the licensing stage of the selected technologies, evaluation of the project-related aspects, planning of the detailed construction stage and integration of existing infrastructure.

On 11 October 2011, information about the project of Visaginas NPP was submitted to the European Commission in line with Article 41 of the EURATOM Agreement. This article stipulates that the developers of new nuclear facilities must notify the European Commission of their activities no later than three months before signing the first contracts with suppliers, or before starting the works if they use their own finances.

On 9 December 2011, the Company signed a contract with the leader of the nuclear power sector, **Exelon Nuclear Partners (ENP) LLC, which will work together with the regional Owner's Engineer at this stage of the Visaginas NPP project.**

On 23 December 2011, an agreement on the fundamental terms and conditions of the Concession Agreement of Visaginas NPP was signed. This agreement was signed by the Chairman of the Concession Contest and Energy Vice-Minister Žygimantas Vaičiūnas, as well as the Vice-President of strategic investor Hitachi, Masaharu Hanyu.
In the course of reorganization of the electricity sector, the Company's goal is to ensure efficient activities of the sector's companies in the Republic of Lithuania.

In 2011 Group company LITGRID AB approved the detailed plan for expansion of the Alytus transformer substation and a special plan for the LitPol Link power line, thereby completing the planning stage of this international power connection in the territory of Lithuania. In 2011 LITGRID AB submitted a special plan for construction of the NordBalt connection in Klaipėda County to the Ministry of Energy. This was discussed in public, coordinated with authorities responsible for the issue of planning terms and conditions and inspected by the State Territorial Planning and Construction Inspectorate. Following the Law on Coastline, a special plan must be approved by the Government of the Republic of Lithuania. On 30 September 2011, LITGRID AB started paying compensation in accordance with easement agreements. The first sum of nearly 2.5 million litas was paid to the owners of 209 plots of land.

In 2011 Group company LESTO AB continued buying the networks of gardeners' partnerships. All networks were bought in their existing condition. Individual electricity accounting devices were installed for consumers free of charge. During 2011 LESTO AB bought 117 power networks of gardeners' partnerships, mostly in Kaunas County. A contract for funding and administration of the 'Development of AB LESTO Distribution Network' project was signed on 17 May 2011 between LESTO AB, the Ministry of Economy of the Republic of Lithuania and the Lithuanian Business Support Agency. This related to the connection of homesteads with no electricity in Eastern Lithuania (previously the territory of Rytų skirstomieji tinklai AB). The company completed the technical connection of 50 homesteads to the electricity supply when the contract was implemented. 43 homesteads' residents concluded contracts for the purchase and sale of electricity. During 2011 LESTO AB intensively replaced air lines with underground cable lines. During the reporting period 1083,6 kilometres of lines were laid down, of which 1012.9 km were underground (cable lines). 458.6 km of air lines were destroyed and replaced with cable lines in a year due to reorganization.

In 2011, Group company Lietuvos energija, AB, which focuses on renewable power sources, produced 35 per cent of the entire "green" energy produced in Lithuania. In 2011, Lietuvos energija, AB sold 4.22 TWh of electricity to the public (for public suppliers and other independent suppliers). In 2011 Lietuvos energija, AB bought from wind power plants and sold 0.24 TWh of electricity to a public supplier. Lietuvos energija, AB has open-ended permits to produce electricity. Electricity is being produced by the Lithuanian Power Plant, Kruonis Pumped Storage Hydroelectric Plant and Kaunas Hydroelectricity Plant. In 2011 the Lithuanian Power Plant produced 1,20 TWh, Kruonis PSHP 0.53 TWh and Kaunas HPP 0.39 TWh of electricity. In 2011, the volume of electricity produced by the power plants controlled by Lietuvos energija, AB amounted to 22 per cent of the entire state demand.

Research and development

The Company's Visaginas NPP construction project involves the advanced boiling water reactor (ABWR). It is the only third-generation reactor in the world that has been tested in practice (in accordance with the safety level it can also be ascribed to the third-plus generation). The reactor has been developed in accordance with updated boiling water reactor projects in European countries, Japan and the U.S.A. using their best qualities and long-term experience. The ABWR reactor complies with all European Union nuclear reactor safety requirements. The U.S. Nuclear Regulatory Commission (NRC) has identified the ABWR reactor as the most up-to-date and safest technology available on the market. The safety level exceeds the strictest safety and safety assurance requirements.

With respect to technically- and economically-sound investment policy, the Group's companies draw up programmes to increase and develop the efficiency of energy system capabilities. The implementation of these programmes is mostly carried out on account of investments into the construction of new power facilities or development and modernization of existing facilities. One of the main objectives is to reconstruct power facilities via replacement with new and up-to-date facilities and introduction of modern relay protection, systemic automation, management, information collection and transmission systems.

The company LITGRID AB, which belongs to the Group, prepares annual development and research programmes to develop the electricity system and to increase network operating efficiency. The power facilities are reconstructed via replacement of facilities with up-to-date facilities and introduction of modern relay protection, systems automation, management and information collection and transmission systems. Plans for construction and reconstruction of the facilities are prepared for a period of ten years on the basis of scientific research and studies and revised annually. In 2011 LITGRID AB and the Latvian and Estonian transmission system operators announced a contest, 'Integration of the Baltic States into the EU Internal Power Market', in order to conduct feasibility studies for the installation of connections. These studies are funded in part from the European Union programme *Transeuropean Energy Network for Electricity* (*TEN-E*).

With respect to technically- and economically-sound investment policy, Group company Lietuvos energija, AB conducts long-term strategic planning. This helps identify the company's development trends and investments needed to replace or modernize existing technological facilities. In 2011, the following research studies started, associated with the development of Lietuvos energija, AB activities:

- Feasibility studies for the development of heat production facilities in Elektrėnai.
- Research into Syderiai's geological structure.
- A technological audit of the Lithuanian Power Plant.

After an intensive activity optimization stage, Group company LESTO AB continues increasing power network efficiency via investments in up-to-date technologies to reduce losses in the power network: power network automation solutions, up-to-date power network and disconnection control systems, modern engineering and technological power network development solutions, etc. LESTO AB also evaluates benefits of the new technologies and seeks to adjust them to its activities. The development of new technologies in electricity will have a significant impact on LESTO AB activities via integration of power plants producing power from renewable sources: wind, sun, water and biomass, expansion of the electromobile charge network, installation of smart meters and others.

Client services

The improvement of the quality of client services remained one of the main objectives in 2011.

Group company LESTO AB is one of the best-rated Lithuanian companies involved in infrastructural communication services. The company RAIT, which conducts public opinion polls, carried out a survey from 24/11/2011 to 15/12/2011 that revealed public satisfaction with the quality of LESTO AB. RAIT interviewed 1002 Lithuanian residents and 504 heads of companies: 70 per cent were completely satisfied with LESTO AB and 26 per cent were more likely to be satisfied.

In 2011 the main goal of LESTO AB was to ensure smooth client service via all available channels: client service centres, website My Electricity, client service number 1802 and email. In 2011 LESTO AB sought to provide all relevant information to its clients via all available service channels.

Risk factors and risk management

Political risk factors

The timely implementation of the Company's Visaginas NPP project depends on interstate agreements, preparation and improvement of the necessary national legal and investment environment to develop the project and adopted laws. The initialized Visaginas NPP Concession Agreement signed with the strategic investor will be approved by the Parliament of the Republic of Lithuania.

The licensed activities of Group companies LITGRID AB and LESTO AB are governed by the Law on Electricity of the Republic of Lithuania and related legal acts. Amendments to this law may affect the Group's activities and results.

The National Control Commission for Prices and Energy adopts decisions on electric energy pricing, which significantly affect the Group's operating results.

The implementation of the strategic energy sector projects depends on interstate agreements.

Economic risk factors

The market electricity production (or import) price is a significant risk factor. This price has a direct impact on the cost price of electricity.

The cost price of electricity produced by Lietuvos energija, AB may be affected by fluctuations in the prices of gas and crude oil.

The liberalization of the electricity market price started in 2010, since when consumers have selected an independent electricity supplier without restrictions. As a result, LESTO AB has lost some income from supplies. LESTO AB is planning to reduce this risk via an increase in income from unregulated activities. National macroeconomic conditions have a direct impact on sales of electricity, connection of new consumers to power facilities and financial capabilities of clients.

The Group's companies purchase power facilities and materials, the price of which depends on market trends. The price of these goods affects the expenditure on networks and investment in power networks and, accordingly, the financial results of the Group.

Financial risks

In the course of its activities, the Group's companies encounter financial risks, i.e. credit risk, liquidity risk and market risk (foreign currency risk, interest rate risk, securities price risk). By way of control, the Group's companies attempt to reduce the impact of these factors, which can affect the financial results of the Group and the Company.

For more details, see Comment No. 3 of the VAE Group's consolidated financial statements.

Technical and technological risk factors

Group company Lietuvos energija, AB has ordered risk management studies, on the basis of which it has established a common risk register. The company has subsequently made a risk management plan, under which it identifies measures and their implementation terms.

The management of Group company LESTO AB pays great attention to the management of loss in the electricity network and has established a regular electricity loss commission, which discusses measures for reducing loss in the electricity network. It also makes short-term and long-term electricity loss reduction plans. The loss of electricity depends on the technical characteristics of the distribution network, its optimum utilization and management of risks related to other losses of power in the network.

Major technology faults or failures may affect the activities and financial results of Group company LITGRID AB. The Lithuanian power system has many connecting lines with neighbouring power systems. Power and energy-balance management measures are not abundant, and the management of power and power balance is complicated.

Ecological risk factors

All Group companies meet environmental protection requirements.

Basic environmental protection requirements for Lietuvos energija, AB are as follows: ecological utilization of dangerous materials, adjustment of power facilities and structures to the landscape, assurance of permissible fluctuations in the water level of Kaunas Lagoon and Nemunas below Kaunas HPP. The reconstruction of Kaunas HPP has significantly reduced the environmental protection risk because dangerous lubricants, which were used in the facilities previously, have been replaced with ecological and environmentally-friendly lubricants.

In the course of activities, Group companies LESTO AB and LITGRID AB keep within the environmental protection regulations, which provide for proper marking, usage and storage of dangerous materials, and ensure that facilities meet the requirements. The environmental protection regulations oblige LESTO AB and LITGRID AB to introduce procedures and technologies that prevent or reduce potential environmental pollution and allow safe levels of unavoidable pollution. Apart from liability for the current activities, LESTO AB and LITGRID AB might also be held liable for any previous activities should any environmental damage be detected. Moreover, any national or international changes in environmental protection regulation may oblige LESTO AB and LITGRID AB to introduce new measures in keeping with standards.

ANALYSIS OF FINANCIAL RESULTS

Financial indicators of the Group

Thousand LTL, unless otherwise stated	2011	2010	Change
Scope of production and services			
Produced electricity, TWh	2,0	3,0	–32,9 %
Imported electricity, TWh	1,1	1,2	–7,7 %
Exported electricity, TWh	0,3	0,2	52,6 %
Transmitted electricity for state needs via high pressure wires, TWh	9,3	9,3	0,2 %
Distributed electric energy for consumers via medium and low pressure wires, TWh	7,9	7,7	1,7 %
Public and guaranteed electricity supply, TWh	4,2	5,8	–28,1 %
Income, expenditure and profit			
Income	2 673 146	2 966 388	–9,9 %
Cost of purchase of electricity, fuel and related services	(1 571 178)	(1 729 339)	–9,1 %
Operating expenses	(480 969)	(558 068)	–13,9 %
EBITDA[1]	620 999	678 981	–8,5 %
Net profit (loss)	(108 964)	(38 905)	–
Balance			
Current assets at the end of the year	11 610 830	11 429 859	1,6 %
Equity of the end of the year	7 630 430	7 719 157	–1,2 %
Financial liabilities	1 087 797	1 089 802	–0,2 %
Financial liabilities at the net value[2]	572 910	693 165	–17,3 %
Cash flows			
Net cash generated from operating activities	565 658	527 555	7,2 %
Net cash flows from investment activities	(715 680)	(691 461)	3,5 %
Profitability			
EBITDA margin[3]	23,2 %	22,9 %	
Return on equity[4]	–1,4 %	–0,5 %	
Return on assets[5]	–0,9 %	–0,3 %	
Capital structure			
Financial liabilities at the net value / EBITDA	92,3 %	102,1 %	
Equity / Assets	65,7 %	67,5 %	
Financial liabilities at the net value / Equity	7,5 %	9,0 %	
Liquidity			
Total liquidity[6]	88,5 %	64,1 %	
Critical liquidity[7]	76,4 %	53,0 %	

Market of services supplied by the Group

Most of the Group's activities and income are regulated. Decisions on electricity pricing are adopted by the National Control Commission for Prices and Energy; these decisions have a significant impact on the Group's operating results.

As a result of specific activities, both the transmission and distribution companies are considered natural monopolies. Activities of the Group's companies are carried out in Lithuania.

Lietuvos energija, AB unites all the state-owned electricity production facilities and performs an exceptional function in the electricity sector: it ensures state power safety. Around 40 per cent of the income of

[1] EBITDA (earnings before interest, taxes, depreciation, and amortization) = profit (loss) before tax, with the exception of interest cost and income, depreciation and amortization and impairment.
[2] Financial liabilities at the net value = financial liabilities after deduction of cash and cash equivalents, current investments and fixed-term deposits.
[3] EBITDA margin = ratio between EBITDA and all income.
[4] Return on equity (ROE) = ratio between the net profit and own capital at the end of the year.
[5] Return on assets (ROA) = ratio between the net profit and assets at the end of the year.
[6] Total liquidity = ratio between current assets and current liabilities.
[7] Critical liquidity = ratio between current assets, with the exception of inventories, and current liabilities.

Lietuvos energija, AB is composed of income from regulated activities – production of electricity and heat energy by the Lithuanian Power Plant and systemic services of the company.

Analysis of financial results of the Company

The Company's profit for 2011 amounted to 108,346 thousand litas. In 2011, received dividends amounted to 137,227 thousand litas and income from investment activities amounted to 2,393 thousand litas. In future, the Company plans to earn income from the supply of management services to the controlled companies. The Company's activities are also focused on income in the long-run, after implementation of the Visaginas NPP project.

The Company's operating expenses totalled 36,053 thousand litas in 2011. Consultation services (i.e. expenses attributable to project studies and consultations that could not be recognized as intangible assets or construction in progress in accordance with International Accounting Standards) represented 75 per cent of this amount ; employment-related expenses represented 26 per cent.

The Company's non-current assets amounted to 3,892,701 thousand litas. Investments in subsidiaries comprised a major portion of this amount(3 874 802 thousand litas or 99 per cent). Construction in progress and expenses related to the project implementation recognised as intangible assets of 11,327 thousand litas , and deferred income tax assets of 6,506 thousand litas comprised the remaining portion.
Current assets were mainly composed of liquid financial instruments (99 per cent of all current assets), deposits of credit institutions operating in Lithuania and cash on accounts. These assets were worth 155,071 thousand litas.

The Company's authorized share capital has been fully paid.

The Company's current liabilities amounted to 9,994 thousand litas. These were mainly trade payables.

The Company does not use any financial instruments that affect the value of the Company's assets, equity, liabilities, financial position or operating results.

Investments

The Group companies' main investments are aimed at improving the quality of supplied services.

In 2011, investments by Lietuvos energija, AB amounted to 269 million litas. The majority of Lietuvos energija, AB's investments was allocated for the combined cycle unit of the Lithuanian Power Plant (263 million litas, incl. capitalized interest). In addition, the Company plans to invest 182 million litas in this unit in 2012.

In 2011, investments by LITGRID AB in assets for transmission activities totalled 74 million litas. The company mainly invested in implementation of the strategic project.

In 2011, investments by LESTO AB in the development and modernization of the power grid totalled 296 million litas. During 2011, its main investments were in the connection of new consumers to the power facilities (93.3 per cent). In 2011 LESTO AB completed the reconstruction of 11 transformer substations.

In 2011, the Company's investments that include expenses related to project implementation recognised under construction in progress amounted to 0.5 million litas. Other investments by the Group's companies amounted to 11 million litas.

Dividend policy

The Government of the Republic of Lithuania holds 100 per cent of the Company's shares directly via the Ministry of Energy of the Republic of Lithuania. With respect to the dividend policy, the Company and the Group follows the principles of payment of dividends for the state-owned shares established by Resolution No. 20 of 14 January 1997 (edition of resolution No. 361 of 30 March 2011) in coordination with the priorities of the Group's strategic project funding needs.

HUMAN RESOURCES, SOCIAL AND ENVIRONMENTAL PROTECTION POLICY

Employees

As a result of the increased efficiency of the Group companies' processes, the number of personnel at the end of 2011 declined by 4 per cent compared with the beginning of the year. As at 31 December 2011, the Group had 5413 employees.

The total salary fund of the Group was 206,738 thousand litas during the reporting year.

As at 31 December 2011, the Company had 47 employees. The Company's total salary fund was 3,833 thousand litas during the reporting year.

All of the Company's employees had participated in higher education: 7 had doctoral degrees, 2 were certified professional project managers and 1 was an expert holding two attested levels of a financial analyst. There were also nuclear energy professionals, active members of associations and unions (Lithuanian Nuclear Energy Association, Association of Financial Analysts, Lithuanian Union of Construction Engineers, Lithuanian Geologists' Union) and academics (participants in the Supervisory Council of the Lithuanian Energy Institute and the Council of the Faculty of Physics of Vilnius University).

Average salary of the Company's personnel

Structure of employees by category	Average monthly salary, litas
	2011
Management	16 637
Professionals and middle-level managers	5 641

Average salary of the Group's personnel

Structure of employees by category	Average monthly salary, litas
	2011
Management	12 338
Professionals and f middle-level managers, workers	2 925

The remuneration policy implemented by the Group's companies has allowed them to move in line with most advanced companies in the country, in which employees are paid for work in accordance with achieved results and the value created for the organization. The remuneration system is based on the Hay Group methodology, which ensures an objective job evaluation in line with necessary education, problem complexity and the level of responsibility that falls on the position. This system has allowed management of costs and ensured that the strategic goals of the Group and the Company, as well as business management logic, are reflected in the payroll system.

Social responsibility projects and initiatives

Group company LESTO AB is a member of the Global Agreement initiated by the United Nations and therefore submits an annual Progress Report. In terms of social responsibility, LESTO AB's main goal is to develop the skills of safe and rational electricity consumption in public, to contribute to the preservation of power resources and reduce their effect on the environment; therefore all of the social responsibility actions initiated and conducted by LESTO AB contribute to the achievement of these goals. LESTO AB's responsibility on the market has encompassed its responsible conduct in cooperation with all interested groups: clients, suppliers, contractors and state authorities. LESTO AB has paid particular attention to the quality of customer service and expansion of the scope of its services, which help to save time and expenditure. Any work with the customers was based on the principles of respect, awareness of their needs and delivery of professional and fast solutions. LESTO AB implements three broad long-term social responsibility projects: 'Operacija 2020', 'Tiek, kiek reikia' and 'Elektromagija', which share active involvement of the communities and target public groups.

The specificity of work of the Group's company, producer of electricity Lietuvos energija, AB is closely related with the physical environment and local community. Accordingly, when working and spending most of the time in Elektrėnai city, Lietuvos energija, AB must not only maintain strong and sincere contact with its employees, but also establish friendly and cooperative relationships with the local community. The employees of Lietuvos energija, AB participate in social events. In 2011 the employees participated in the cleaning campaign 'Darom', in the course of which they cleaned the public areas of Elektrėnai city. For the educational purposes of a young generation of energy professionals, the company participated in the events of Kaunas Technological University and University of Management and Economics (ISM), where it presented the company and received an active response, i.e. deep interest of students in internship possibilities.

When implementing the social responsibility policy, LITGRID AB pays most of its attention to honest and motivating work conditions, development of responsibility and public spirit, assistance in comprehensive development and strengthening of the society where it operates.

Environmental protection

The main environmental protection objectives of the Group's companies are handling of waste and polluted waste water, and adjustment of power facilities and structures to the environment.

In 2011 the Company prepared a special plan of communications necessary to transport heavyweight and wide-dimension cargoes and other cargoes for the construction of the new Visaginas NPP, performed a strategic environmental impact assessment and public health impact assessment, and identified measures necessary to reduce potential environmental and public impact.

The Environmental Protection Plan of Group company Lietuvos energija, AB governs the prevention of environmental protection problems and solutions associated with the construction of the combined cycle unit of the Lithuanian Power Plant. The plan identifies the measures the contractor must implement to reduce or eliminate the impact of the construction works on the environment. The Lithuanian Power Plant has installed an accounting unit of waste water released to the natural environment (River Strėva), on the basis of which charges shall be paid for the released volume of waste water and for actual pollution.

The results of the research of 2011 indicate that the highest permissible and expected/desired values of surface (rain), domestic and industrial waste water as established in the TIPK permits of Lithuanian Power Plant, Kruonis PSHP and Kaunas HPP have not been exceeded.

Group company LITGRID AB conducts environmental impact assessment procedures with respect to planned electricity transmission lines and transformer substations, the conclusions of which are taken into consideration in the preparation of technical projects. Environmental protection requirements are established in the course of design of new structures or reconstruction of existing structures. When buying services, the contractors must have Environment Management Systems installed in accordance with the standard LST EN ISO 14001; the contractors are obliged to handle any waste produced in the course of construction and to submit any documentation supporting this.

LITGRID AB operates in keeping with the documents governing the handling of waste and waste water, safe utilization of chemical materials and established environmental protection requirements for newly constructed and reconstructed objects. LITGRID AB has a civil liability insurance against any harm to the environment.

When implementing environmental protection projects, Group company LESTO AB seeks to reduce the negative impact of power facilities to human beings and the environment and to promote participation of the society in more initiatives. In its daily activities, LESTO AB promotes the utilization of work measures capable of reducing expenditure and pollution and is engaged in an active search for ways to reduce the negative impact of power facilities to human beings and the environment.

LESTO AB seeks to operate ecologically and to reduce document administration and management costs for administration of paper invoices and encourages its clients to choose electronic invoices, which could replace ordinary paper invoices. The management and archiving of electronic documents is simpler, the history of invoices is kept on the self-service website My Electricity, and the clients receive a message via email for payment thereof; the clients can pay such invoices by connecting to the self-service website. At the end of 2011, 85 per cent of the business clients of LESTO AB used electronic invoices.

When reconstructing power substations, LESTO AB installs high quality rain water and lubricant collection facilities in accordance with established standards to avoid any release of pollution to the environment. When reconstructing transformer substations, old and depreciated power transformers are replaced with silent mode transformers, thereby reducing the released noise level. During installation of the facilities, attention is paid to the preservation of both the landscape and the cultural heritage objects.

INFORMATION ABOUT THE SHARE CAPITAL, COMPANY'S SHAREHOLDERS AND MANAGEMENT

By the decision of 31 January 2011 of the shareholders of Visagino atominė elektrinė, UAB, the share capital of the Company was increased through the issue of 25,478,380 new ordinary registered shares with a nominal value of one litas. Under this decision, LEO LT AB in liquidation was granted the right to acquire the newly issued shares could have been d by, AB. All the shares are fully paid.

The increase in the Company's share capital was registered on 11 February 2011.

On 21 October 2011 the liquidated LEO LT AB transmitted and the Ministry of Energy of the Republic of Lithuania accepted the shares, which belong to the state as the only shareholder in LEO LT AB.

As at 31 December 2011 and 31 December 2010 the Company's share capital amounted to 4,067,163,632 litas and 4,041,685,252 litas respectively. On 31 December 2011 and on 31 December 2010 the share capital was divided into ordinary registered shares with a nominal value of 1 litas. All the shares have been fully paid.

Company's shareholders:	31/12/2011		31/12/2010	
	Share capital (thousand litas)	%	Share capital (thousand litas)	%
LEO LT AB in liquidation	–	–	3 238 683	80,13
Republic of Lithuania represented by the Ministry of Energy	4 067 164	100,00	803 002	19,87
	4 067 164	**100,00**	**4 041 685**	**100,00**

Restrictions on the transfer of securities

As at 31 December 2011 there were no restrictions on the transfer of securities during the reporting period.

Authorisations granted by the bodies of the Company to issue and redeem Company shares
During the reporting period the Company did not issue or redeem its own shares.
The Company has not acquired its own shares. The subsidiaries have not acquired the Company's shares either.

Restrictions on voting rights
According to the date of 31 December 2011, no restrictions on voting rights were imposed during the reporting period.

Amendment procedures of the Company's Articles of Association
The Company's Articles of Association can be amended in accordance with the Law on Companies of the Republic of Lithuania and the Company's Articles of Association, which set forth the rule that the Company's Articles of Association can be amended under the decision of the general meeting of shareholders of the Company and shall come into effect as of registration thereof with the Register of Legal Entities.
The Company's Articles of Association were amended last time on 2 February 2011, under the decision of the general meeting of shareholders of the Company, and registered with the Register of Legal Entities.

Regulation of appointment and replacement of the Company's bodies and their powers
The Company's Articles of Association (edition effective in the reporting period) provide for the procedures for election and revocation of the Company's management members, as well as competencies thereof in line with the Law on Companies of the Republic of Lithuania.

According to the Company's Articles of Association (edition effective in the reporting period), the Company's management is appointed for a period of 4 years and is composed of 5 members elected by the general meeting of shareholders of the Company.

In its activities, the Board follows laws, other legal acts, the Company's Articles of Association and decisions of the general meeting of shareholders. The Chairman of the Board presides over the Company's Board. The Chairman of the Board is elected by the members of the Board.

The Company's Articles of Association (edition effective at the end of the reporting period) provide for the procedures for election and revocation of the Company's Manager (Managing Director) and competencies thereof in line with the Law on Companies of the Republic of Lithuania. The Company's Articles of Association (edition effective in the reporting period) provide for the Company Board's election and dismissal of the Company's Manager (Chief Executive Officer).

In his activities the Company's Manager must follow laws, other legal acts, the Company's Articles of Association, decisions of the general meeting of shareholders and decisions of the Board and job description.

Competencies of the general meeting of shareholders, rights of shareholders and exercise of such rights
The competencies of the general meeting of shareholders, the procedure for convening thereof and adopting of decisions are set forth by laws, other legal acts and the Company's Articles of Association.

Members of the management bodies
According to the Company's Articles of Association, the Company's management bodies are as follows: General Meeting of Shareholders, the Board and the Company's Manager (Chief Executive Officer).

The Board is a collegial management body composed of 5 members.

Name and surname	Position	Number of shares held, percentage	Votes, percentage
		Board	
Arvydas Darulis	Chairman	–	–
Rimantas Vaitkus	Member	–	–
Kęstutis Škiudas	Member		
Aloyzas Vitkauskas	Member		
Inga Černiuk	Member	–	–
		Company's Manager	
Rimantas Vaitkus	Chief Executive Officer	–	–

At the beginning of the reporting period, the Company's Board was composed of the following: Chairman Arvydas Darulis, and members Kęstutis Škiudas, Inga Černiuk, Šarūnas Vasiliauskas and Antanas Budraitis.

Under the decision of 31 January 2011, the general meeting of shareholders elected the following members of the Board: Arvydas Darulis, Kęstutis Škiudas, Šarūnas Vasiliauskas, Inga Černiuk and Aloyzas Vitkauskas.

On 24 October 2011 Arvydas Darulis, Kęstutis Škiudas, Inga Černiuk, Aloyzas Vitkauskas, Rimantas Vaitkus were elected members of the Board.

On 3 March 2011 the Company's general meeting of shareholders established the Audit Committee.

Information on the fields of activity of the Company Manager
During the reporting period the Company's Manager acted as single- man management body of the Company, who implemented the decisions of the general meeting of shareholders and of the Board, analysed, discussed and assessed the Company's activities and environment, planned the Company's activities, adopted decisions on the Company's activities, acted on behalf of the Company and concluded transactions, controlled and organized the daily activities of the Company.

Information on the fields of activity of the Board
During the reporting period the Company's Board analysed, discussed and assessed the activities of the Group and of the Company and environment thereof, planned the activities of the Group and of the Company, adopted all significant decisions on the management of the Company and of the Group and controlled the activities of the Company and of the Group. The Board's competencies could not have been delegated and/or transferred.

Agreements between the Company and the members of its bodies or employees, which provide for compensation in the event of dismissal or resignation without reasonable cause, or in the event of termination of employment due to change in the Company's control.
Following the information as at 31 December 2011, during the reporting period the Company did not conclude any agreements with members of the management bodies or employees that provide for any additional compensation not established by laws, in the event of dismissal or resignation without reasonable cause or in the event of termination of employment due to change in the Company's control.

Significant agreements that come into effect, change or dissolve upon changes in the Company's control
Following the information as at 31 December 2011, during the reporting period the Company did not enter into any significant agreements that come into effect, change or dissolve upon changes in the Company's control.

Transactions between related parties
Information about transactions between related parties during the reporting period is provided for in Comment No. 34 of the Company's audited annual financial statements for the year 2011.

References and additional explanations on information provided for in consolidated financial reports
For more explanations of the financial information, see the explanatory note of the financial statements for the year 2011.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE PREVIOUS FINANCIAL YEAR

Upon successful completion of negotiations on 30 March 2012, in the chamber of the Lithuanian Government, the Concession Agreement on the construction of Visaginas NPP was initialled. The Concession Agreement stipulates the main development principles of the Visaginas NPP project, defines the rights and liabilities of the host country and of the investor. The agreement completes the official selection of Hitachi investment and Hitachi-GE technologies and establishes the agreed schedule of implementation of the Visaginas NPP project. In the near future, the initialled Concession Agreement will be discussed by the Government and submitted to the Parliament for approval. Upon granting of a concession, the preparation for construction will start, in the course of which the strategic investor and other investors will invest in the project and the work of design, licensing and preparation of the construction site shall commence.

On 30 March 2012, the Lithuanian power transmission system operator LITGRID AB submitted a comprehensive action plan regarding the separation of the company from the vertically integrated group of companies. According to the plan, LITGRID AB activities will be separated from the vertically integrated group of companies of Visagino atominė elektrinė, UAB, which holds the control share package of LITGRID AB at the moment.

On 4 April 2012, the Government recognized the route for the transportation of heavyweight and wide-dimension cargoes, which is necessary for the construction of the new nuclear power plant, as an economic project significant for the whole state.

Chief Executive Officer
Rimantas Vaitkus

23 April 2012

STATEMENT OF FINANCIAL POSITION

	Notes	Group		
		2011	2010 (restated)	2009 (restated)
ASSETS				
Non-current assets				
Intangible assets	6	343 342	343 957	321 114
Property, plant and equipment	7	9 985 395	10 069 631	9 654 156
Prepayments for non-current assets		89 911	46 669	156 140
Investment property	8	93 574	47 371	17 260
Investments in subsidiaries and other investments	9	–	–	–
Investments in associates	9	28 797	27 610	25 837
Amounts receivable after one year and grants/subsidies receivable	10	13 452	30 439	27 349
Other financial assets		–	875	934
Deferred income tax assets	20	6 884	3 393	3 300
Total non-current assets		**10 561 355**	**10 569 945**	**10 206 090**
Current assets				
Inventories	11	144 147	148 980	63 869
Prepayments		3 227	6 211	10 106
Trade receivables	12	240 528	253 046	222 309
Other amounts receivable	13	138 889	42 120	214 007
Other current assets		109	242	100
Prepaid income tax		3 379	7 486	332
Short-term investments, time deposits and other financial assets	14	352 943	53 637	85 294
Cash and cash equivalents	15	161 944	343 000	301 529
		1 045 166	**854 722**	**897 546**
Non-current assets held for sale		4 309	5 192	679
Total current assets		1 049 475	859 914	898 225
TOTAL ASSETS		**11 610 830**	**11 429 859**	**11 104 315**
EQUITY AND LIABILITIES				
Equity				
Share capital	16	4 067 164	4 041 685	25 000
Reserves	17	2 915 038	1 916 862	2 012 638
Retained earnings (deficit)		(144 198)	970 805	4 882 207
Equity attributable to owners of the parent		**6 838 004**	**6 929 352**	**6 919 845**
Non-controlling interests		792 426	789 805	895 696
Total equity		**7 630 430**	**7 719 157**	**7 815 541**
Amounts payable and liabilities				
Amounts payable after one year and liabilities				
Non-current borrowings	18	572 368	313 340	623 648
Finance lease liabilities	19	319	851	1 565
Grants and subsidies	21	1 214 937	942 542	815 150
Deferred income tax liabilities	20	732 405	795 650	865 299
Provisions	23	4 286	22 161	7 778
Deferred income	22	223 195	240 236	249 876
Other non-current amounts payable and liabilities	24	47 294	55 114	996
Total amounts payable after one year and non-current liabilities		**2 794 804**	**2 369 894**	**2 564 312**
Amounts payable within one year and liabilities				
Current portion of long-term debts	18	494 107	720 328	145 265
Current borrowings	18	20 419	54 772	69 608
Current portion of finance lease liabilities	19	584	511	532
Trade payables	25	237 021	175 182	174 624
Advance amounts received		77 306	42 449	44 252
Income tax liabilities		37 827	16 474	28 307
Provisions	23	63 039	68 964	28 138
Other current amounts payable and liabilities	26	255 293	262 128	233 736
Total amounts payable within one year and current liabilities		**1 185 596**	**1 340 808**	**724 462**
Total amounts payable and liabilities		**3 980 400**	**3 710 702**	**3 288 774**
TOTAL EQUITY AND LIABILITIES		**11 610 830**	**11 429 859**	**11 104 315**

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

Chief Executive Officer Rimantas Vaitkus

Accounting Manager Edita Steponavičienė

	Notes	Company	
		2011	2010
ASSETS			
Non-current assets			
Intangible assets	6	66	138
Property, plant and equipment	7	11 327	10 802
Investments in subsidiaries and other investments	9	3 874 802	3 874 802
Deferred income tax assets	20	6 506	1 600
Total non-current assets		**3 892 701**	**3 887 342**
Current assets			
Inventories	11	2	1
Prepayments		97	87
Trade receivables	12	1	32
Other amounts receivable	13	151	163
Short-term investments and time deposits	14	155 071	5 065
Cash and cash equivalents	15	5 145	34 091
		160 467	**39 439**
Non-current assets held for sale		266	266
Total current assets		**160 733**	**39 705**
TOTAL ASSETS		**4 053 434**	**3 927 047**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	4 067 164	4 041 685
Reserves	17	–	–
Retained earnings (deficit)		(23 724)	(132 069)
Equity attributable to owners of the parent		**4 043 440**	**3 909 616**
Non-controlling interests		–	–
Total equity		**4 043 440**	**3 909 616**
Amounts payable and liabilities			
Amounts payable within one year and liabilities			
Current borrowings	18	–	13 980
Trade payables	25	8 780	1 822
Other current amounts payable and liabilities	26	1 214	1 629
Total amounts payable within one year and liabilities		**9 994**	**17 431**
Total amounts payable and liabilities		**9 994**	**17 431**
EQUITY AND LIABILITIES		**4 053 434**	**3 927 047**

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

Chief Executive Officer Rimantas Vaitkus

Accounting Manager Edita Steponavičienė

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Group		Company	
		2011	2010 (restated)	2011	2010
Revenue					
Sales revenue	27	2 611 207	2 910 686	–	–
Other operating income	28	61 939	55 702	10	966
Total revenue		**2 673 146**	**2 966 388**	**10**	**966**
Operating expenses					
Purchases of electricity or related services		(1 119 542)	(1 183 740)	–	–
Purchases of gas and heavy fuel oil		(451 636)	(545 599)	–	–
Depreciation and amortisation	6,7,21	(638 074)	(646 277)	(81)	(79)
Revaluation and impairment of assets	6,7,8	(75 774)	(58 934)	–	–
Write-off of property, plant and equipment		(31 530)	(17 823)	–	–
Wages and salaries and related expenses		(258 092)	(292 611)	(5 822)	(4 626)
Repair and maintenance expenses		(78 555)	(56 153)	–	–
Other expenses	29	(144 322)	(209 304)	(30 150)	(11 056)
Total operating expenses		**(2 797 525)**	**(3 010 441)**	**(36 053)**	**(15 761)**
Operating profit (loss)		**(124 379)**	**(44 053)**	**(36 043)**	**(14 795)**
Financing activities					
Finance income	30	9 334	12 292	139 620	658
Finance costs	31	(15 084)	(17 401)	(137)	(424)
Finance income (costs), net		**(5 750)**	**(5 109)**	**139 483**	**234**
Profit (loss) before tax		(130 129)	(49 162)	103 440	(14 561)
Current year income tax expense	32	(46 873)	(63 735)	–	–
Deferred income tax (expense)/income	32	68 038	73 992	4 906	(1 404)
Net profit (loss) for the year		**(108 964)**	**(38 905)**	**108 346**	**(15 965)**
Attributable to:					
Owners of the parent		(98 132)	(38 846)	108 346	(15 965)
Non-controlling interests		(10 832)	(59)	–	–
Other comprehensive income (loss)					
Gain (loss) on revaluation of non-current assets		7 388	30 245	–	–
Other comprehensive income (loss) included directly in equity during the period		–	–	–	–
Other comprehensive income (loss) for the year		**7 388**	**30 245**	**–**	**–**
Total comprehensive income (loss) for the year		**(101 576)**	**(8 660)**	**108 346**	**(15 965)**
Attributable to:					
Owners of the parent		(91 159)	(10 162)	108 346	(15 965)
Non-controlling interests		(10 417)	1 502	–	–

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

Chief Executive Officer Rimantas Vaitkus

Accounting Manager Edita Steponavičienė

STATEMENT OF CASH FLOWS

	Notes	Group		Company	
		2011	2010 (restated)	2011	2010
Cash flows from operating activities					
Net profit (loss) for the year		(108 964)	(38 905)	108 347	(15 965)
Reversal of non-monetary expenses (income):					
Depreciation and amortisation	6,7	652 641	651 895	81	79
Revaluation of property, plant and equipment	7	12 006	44 763	–	–
Impairment of assets (reversal)	6,7,8	1 066	(2 766)	–	–
Share of profit of associates and joint ventures		(1 187)	(614)	–	–
Income tax expenses	32	(21 165)	(10 257)	(4 907)	1 404
(Depreciation) of grants	21	(14 567)	(5 618)	–	–
Increase (decrease) in provisions	23	23 800	55 208	–	–
(Gain) loss on disposal/write-off of property, plant and equipment		31 530	18 446	–	–
Emission allowances utilised	23	54 212	26 909	–	–
Elimination of results of financing and investing activities					
Interest income	30	(7 538)	(9 186)	(2 393)	(658)
Interest expenses	31	13 319	12 597	135	420
Other finance (income) costs		806	(1 020)	(137 227)	–
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		(84 156)	6 283	42	(232)
(Increase) decrease in inventories, prepayments and other current assets		4 676	(136 038)	(11)	(20)
Increase (decrease) in amounts payable, deferred income and advance amounts received		39 458	(8 385)	6 618	310
Income tax (paid)		(30 279)	(75 757)	–	–
Net cash flows from (used in) operating activities		**565 658**	**527 555**	**(29 315)**	**(14 662)**
Cash flows from investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(669 480)	(791 077)	(610)	(5 002)
Disposal of property, plant and equipment and intangible assets		40 466	43 155	–	29 249
Loans granted		–	–	(10 000)	–
Loans repayments received		523	11 502	10 000	3 142
Time deposits and other financial assets		(168 858)	31 794	(102 174)	15 500
Acquisition of subsidiaries/associates		–	–	–	(600)
Grants received		142 196	–	–	–
Acquisition of held-to-maturity financial assets		(68 521)	–	(46 981)	–
Interest received		6 446	10 389	1 543	726
Dividends received		1 548	–	123 247	–
Other cash flows from investing activities		–	2 776	–	–
Net cash flows from (used in) investing activities		**(715 680)**	**(691 461)**	**(24 975)**	**43 015**
Cash flows from financing activities					
Proceeds from borrowings		362 738	409 145	–	–
Repayments of borrowings		(314 877)	(159 466)	–	–
Finance lease payments		(459)	(735)	–	–
Interest paid		(43 622)	(27 533)	(135)	(420)
Shares issued		25 479	–	25 479	–
Dividends paid	34	(12 819)	(39 929)	–	–
Other cash flows from financing activities		(121)	(80)	–	–
Net cash flows from (used in) financing activities		**16 319**	**181 402**	**25 344**	**(420)**
Increase (decrease) in cash and cash equivalents (including overdraft)		**(133 703)**	**17 496**	**(28 946)**	**27 933**
Cash and cash equivalents (including overdraft) at beginning of year	15	288 228	270 732	34 091	6 158
Cash and cash equivalents (including overdraft) at end of year	**15**	**154 525**	**288 228**	**5 145**	**34 091**

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

Chief Executive Officer Rimantas Vaitkus

Accounting Manager Edita Steponavičienė

STATEMENT OF CHANGES IN EQUITY

Group		Equity attributable to owners of the Group							
		Share capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2010		**25 000**	**113 100**	**1 211 457**	**688 081**	**4 980 654**	**7 018 292**	**900 800**	**7 919 092**
Effect of changes in accounting policies and correction of errors		–	–	–	–	(98 447)	(98 447)	(5 104)	(103 551)
Balance at 1 January 2010 (restated)		**25 000**	**113 100**	**1 211 457**	**688 081**	**4 882 207**	**6 919 845**	**895 696**	**7 815 541**
Revaluation of property, plant and equipment, net of deferred income tax		–	–	28 684	–	–	28 684	1 561	30 245
Other comprehensive income (loss) for the year		**–**	**–**	**28 684**	**–**	**–**	**28 684**	**1 561**	**30 245**
Net profit (loss) for the year (restated)		–	–	–	–	(38 846)	(38 846)	(59)	(38 905)
Total comprehensive income (loss) for the year		**–**	**–**	**28 684**	**–**	**(38 846)**	**(10 162)**	**1 502**	**(8 660)**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		–	–	(117 850)	–	117 850	–	–	–
Transfer to reserves and movements in reserves		–	810	(1 036)	(88)	217	(97)	3	(94)
Dividends	34	–	–	–	–	(132 648)	(132 648)	(31 745)	(164 393)
Losses covered by capitalising a part of loan from the shareholder	16	–	–	–	–	17 065	17 065	–	17 065
Share capital increase by capitalising a part of loan from the shareholder	16	7 936	–	–	–	–	7 936	–	7 936
Share capital increase by in-kind contributions	7,16	90 733	–	–	–	–	90 733	–	90 733
Share capital increase by shares of other companies	16	3 918 016	–	–	–	(3 918 016)	–	–	–
Changes in non-controlling interests due to changes in the group's structure	9	–	2 266	12 830	(21 392)	42 976	36 680	(75 651)	(38 971)
Balance at 31 December 2010 (restated)		**4 041 685**	**116 176**	**1 134 085**	**666 601**	**970 805**	**6 929 352**	**789 805**	**7 719 157**
Balance at 1 January 2011		**4 041 685**	**116 176**	**1 134 085**	**666 601**	**970 805**	**6 929 352**	**789 805**	**7 719 157**
Revaluation of property, plant and equipment, net of deferred income tax	7,20	–	–	6 973	–	–	6 973	415	7 388
Other comprehensive income (loss) for the year		**–**	**–**	**6 973**	**–**	**–**	**6 973**	**415**	**7 388**
Net profit (loss) for the year (restated)		–	–	–	–	(98 132)	(98 132)	(10 832)	(108 964)
Total comprehensive income (loss) for the year		**–**	**–**	**6 973**	**–**	**(98 132)**	**(91 159)**	**(10 417)**	**(101 576)**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		–	–	(123 012)	–	123 012	–	–	–
Transfer to reserves and movements in reserves		–	2 712	–	955 035	(957 747)	–	–	–
Dividends	34	–	–	–	–	–	–	(12 890)	(12 890)
Increase in Baltpoolnon-controlling interests		–	–	–	–	(68)	(68)	328	260
Share capital increase	16	25 479	–	–	–	–	25 479	–	25 479
Changes in non-controlling interests due to changes in the group's structure		–	5 679	127 255	23 534	(182 068)	(25 600)	25 600	–
Balance at 31 December 2011		**4 067 164**	**124 567**	**1 145 301**	**1 645 170**	**(144 198)**	**6 838 004**	**792 426**	**7 630 430**

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

Chief Executive Officer Rimantas Vaitkus

Accounting Manager Edita Steponavičienė

STATEMENT OF CHANGES IN EQUITY

Group		Share capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2010		25 000	–	–	–	(17 064)	7 936	–	7 936
Share capital increase	16	4 016 685	–	–	–	–	4 016 685	–	4 016 685
Losses covered by capitalising a part of loan from the shareholder		–	–	–	–	17 064	17 064	–	17 064
Difference between transaction value and fair value of shareholder's contribution	16	–	–	–	–	(116 104)	(116 104)	–	(116 104)
Net profit (loss) for the year		–	–	–	–	(15 965)	(15 965)	–	(15 965)
Balance at 31 December 2010		4 041 685	–	–	–	(132 069)	3 909 616	–	3 909 616
Balance at 1 January 2011		4 041 685	–	–	–	(132 069)	3 909 616	–	3 909 616
Share capital increase	16	25 479	–	–	–	–	25 479	–	25 479
Net profit (loss) for the year		–	–	–	–	108 345	108 345	–	108 345
Balance at 31 December 2011		4 067 164	–	–	–	(23 724)	4 043 440	–	4 043 440

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

Chief Executive Officer Rimantas Vaitkus

Accounting Manager Edita Steponavičienė

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Visagino Atominė Elektrinė UAB (hereinafter "the Company") is a private limited liability company registered in the Republic of Lithuania. The address of the Company's registered office is Žvejų g. 14, LT-09310, Vilnius, Lithuania. The Company is a limited liability profit-seeking entity registered on 28 August 2008 with the Register of Legal Entities managed by the public institution the Centre of Registers. Company code 301844044, VAT payer's code LT10004278519. The Company is established for an unlimited period.

The Company's principal activities include the performance of preparatory works related to the project on the construction of a new nuclear power plant in Visaginas (hereinafter Visaginas NPP), including participation in attraction for investors to the project, negotiations with regional partners and strategic investor to Visaginas NPP, drafting of various project agreements. The Company analyses the current legal, regulatory and investment environment for the project, elaborates and submits proposals and projects to relevant authorities necessary for establishing legal, regulatory and investment environment for the project. The preparatory works related to VisaginasNPP are important for the timely implementation of project.

As at 31 December 2011 and 2010, the Company's shareholders' structure was as follows:

Shareholders of the Company	31 December 2011		31 December 2010	
	Share capital	Ownership interest, %	Share capital	Ownership interest, %
LEO LT AB in liquidation	–	–	3 238 683	80,13
Lithuanian Ministry of Energy	4 067 164	100,00	803 002	19,87
	4 067 164	**100,00**	**4 041 685**	**100,00**

For the purpose of execution of the energy sector's reorganisation plan (which has been approved by the Lithuanian Government) and seeking to implement the provisions of the Third Energy Package of the European Union, the Company's share capital was increased in 2010. On 4 June 2010, LEO LT AB (a company in liquidation) paid for a part of shares by contributing the shares of entities controlled by it (VST AB and Rytų Skirstomieji Tinklai AB) and the majority of shares owned by it in Lietuvos Energija AB. The other part of the Company's shares was acquired by the Lithuanian Government by contributing the shares of Lietuvos Elektrinė AB and non-current assets.These actions have been approved in advance by the Lithuanian Government Commission for the Assessment of Consistency of Potential Members of Strategic or Significant Importance to National Security with Interests of National Security. Changes in the capital structure enable the ultimate controlling party (the Government of the Republic of Lithuania) to ensure timely and flexible implementation offurther measures set forth in the energy sector's reorganisation plan.

On 31 January 2011, the Company's share capital was increased.

On 21 October 2011, LEO LT AB (in liquidation) transferred, whereas the Lithuanian Ministry of Energy accepted, the shares of Visagino Atominė Elektrinė UAB falling into the ownership of the Republic of Lithuanian as a sole shareholder of LEO LT AB, and belonging to LEO LT under the title of ownership.

The Group includes Visagino Atominė Elektrinė UAB and subsidiaries directly or indirectly controlled by the Company.

Company name	Address of the registered office	Effective ownership interest as at 31 December 2011, %	Share capital (LTL thousand), as at 31 December 2011	Profile of activities
Lietuvos energija, AB	Elektrinės g. 21 LT-26108, Elektrėnai	96,1	635 084	Electricity generation, export and trade
LITGRID, AB	Juozapavičiaus g. 13, Vilnius	97,5	504 331	Operator of electricity transmission system
LESTO AB	Žvejų g. 14, Vilnius	82,6	603 945	Electricity supply and distribution to end users
Technologijų ir Inovacijų Centras UAB	Žvejų g. 14, Vilnius	93,1	76 513	Maintenance of information technologies and telecommunications
Energijos Tiekimas UAB	Jeruzalės g. 21, Vilnius	96,1	750	Electricity supply
Kauno Energetikos Remontas UAB	Chemijos g. 17, Kaunas	96,1	14 245	Repair of energy equipment, production of metal structures
Gotlitas UAB (controlled through Kauno Energetikos Remontas UAB)	R. Kalantos g. 119, Kaunas	96,1	1 450	Accommodation services, trade
NT Valdos UAB	Geologų g. 16, LT-02190 Vilnius	88,3	309 663	Operation of real estate, other related activities and service provision
BALTPOOL UAB	Juozapavičiaus g. 13, Vilnius	65,3	475	Electric power market operator
Public Institution republican Centre of Training for Energy Specialists	Jeruzalės g. 21, Vilnius	93,1	294	Professional development and further training of energy specialists
TETAS UAB	Senamiesčio g. 102 B, Panevėžys	91,7	5 651	Services of power network engineering, construction, repair, maintenance and customer connection to the grid
ELEKTROS TINKLO PASLAUGOS UAB	Motorų g. 2, Vilnius	86,9	16 388	Power network and related equipment repair and maintenance services
Data Logistics Center UAB	A. Juozapavičiaus g. 13, Vilnius	93,1	12 847	Data centre, data transmission, optical fibre lease and other telecommunication services

There were 5 413 employees in the Group as at 31 December 2011 (5 654 employees as at 31 December 2010); 47 employees in the Company as at 31 December 2011 (28 employees as at 31 December 2010).

The Company's management approved these financial statements on 23 April 2012. The Company's shareholders have a statutory right to approve or not to approve these financial statements and require the preparation of a new set of financial statements.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Company's and the Group's financial statements for the year ended 31 December 2011 were as follows:

2.1 Basis of preparation

The Group's and the Company's financial statements as at 31 December 2011 have been prepared on a historical cost basis, except for property, plant and equipment measured at revaluated amount, and investment property, emission allowances and derivative financial instruments measured at fair value.

2011 m. gruodžio 31 d. Įmonės ir Grupės finansinės ataskaitos parengtos įsigijimo vertės pagrindu, išskyrus tam tikrą ilgalaikį materialųjį turtą, kuris apskaitytas perkainota verte, investicinį turtą, aplinkos taršos leidimus ir išvestines finansines priemones, kurios apskaitomos tikrąja verte.

Amendments and interpretations of standards effective in 2011 and relevant to the Group and the Company

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

The Company/Group adopted this Standard for the financial period beginning on 1 January 2010. The revised standard does not require government-related entities to disclose transactions and balances arising from these transactions, including off-balance sheet liabilities, conducted with the government or government-related companies. The adoption of the standard reduced the scope of disclosure of transactions with companies controlled by the Lithuanian Government.

Amendments and interpretations of standards effective in 2011, but not relevant to the Group and the Company

Amendments to existing standards and interpretations adopted by the EU that are mandatory for annual reporting periods beginning on or after 1 January 2011 but not relevant to the Group/Company are as follows:

IFRIC 19, Extinguishing financial liabilities with equity instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.

Prepayments of a minimum funding requirement – amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

Classification of rights issues – amendment to IAS 32 'Financial instruments: presentation' (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.

Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1, IFRS 3, IAS 1, IAS 28, IAS 31, IAS 32, IAS 34, IAS 39 and IFRIC 13.

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

Standards and amendments include as follows:

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015; not yet adopted by the EU).IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets and liabilities.

IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), 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 11, Joint arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), replaces IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly Controlled Entities-Non-Monetary Contributions by Ventures'.

IFRS 12, Disclosure of interest in other entities'(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 'Investments in associates'.

IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), 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.

IAS 27, Separate financial statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), 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.

IAS 28, Investments in associates and joint ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The amendment to IAS 28 resulted from the Board's project on joint ventures.

Disclosures—transfers of financial assets – amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011). 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. The amendment is not expected to have significant impact on the Company's financial statements.

Amendments to IAS 1, Presentation of financial statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU), changes the disclosure of items presented in other comprehensive income.

Amendment to IAS 19, Employee benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013; not yet adopted by the EU), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

IFRIC 20, Stripping costs in the production phase of a surface mine (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, 'Inventories', to the extent that they are realised in the form of inventory produced.

Offsetting financial assets and financial liabilities – amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014; not yet adopted by the EU). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria.

Disclosures—offsetting financial assets and financial liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). 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.

Recovery of underlying assets – amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

Severe hyperinflation and removal of fixed dates for first-time adopters – amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendments will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, and guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

2.2 Consolidation and business combinations between jointly controlled entities

Consolidation

The consolidated financial statements of the Group include the financial statements of the parent companyVisagino Atominė Elektrinė UAB and its directly and indirectly controlled subsidiaries. Control is obtained when the Company has the power to govern the financial and operating policies of an enterprise, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The financial statements of subsidiaries have been prepared using uniform accounting policies and for the same reporting period as that covered by the financial statements of the parent company. On consolidation, all inter-company transactions, balances and unrealised gains and/or losses on transactions among the Group companies are eliminated.

Non-controlling interest represents a part of profit or loss and net assets which is not controlled by the Group. Non-controlling interest is reported separately in the consolidated statement of comprehensive income. The share of equity attributable to the non-controlling interest and to the owners of the parent is shown separately in the consolidated balance sheet.

Business combinations involving entities under common control

IFRS 3, 'Business combinations' is not applied to business combinations *involving entities under common control*, therefore, for the purpose of these financial statements business combinations *involving entities under common control* were accounted for using the pooling of interest method. The application of this method in practice consists of the following procedures:

– the assets and liabilities of the entities in business combination are stated at their carrying amounts equal to those reported in the consolidated financial statements of the ultimate parent company. As most of the entities transferred to the Group in 2010 were founded by the state, the carrying amounts of assets and liabilities of these entities consolidated in these financial statements, except for LESTO AB assets and liabilities taken over from VST AB which was acquired from a private investor by the state-controlled entity LEO LT AB in 2008. Accordingly, the carrying amounts of VST AB reported in these financial statements approximate their fair values determined on the moment of acquisition of control by the state, including goodwill arising on the acquisition;

– no newly arising goodwill is recognised on business combination;

any differences between consideration paid and the carrying amount of net assets acquired as at the date of acquisition is recognised directly in equity within retained earnings;

– theacquiree's results are consolidated as if the acquiree had always been controlled by the acquirer (or from the date the common control arises).

2.3 Investments in subsidiaries (Company)

A subsidiary is an entity directly or indirectly controlled by the parent company. In the parent company's balance sheet, investments in subsidiaries are stated at acquisition cost less impairment loss, where the investment's carrying amount in the parent company's balance sheet exceeds its estimated recoverable amount.

2.4 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.

The Group has investment in a joint ventureLitPol Link Sp.z.o.o, 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 balance sheet, investments in associates and joint ventures are stated at cost less impairment losses, where the investment's carrying amount in the parent's balance sheet exceeds its estimated recoverable amount.

In the consolidated financial statements of the Group, results of operation of associates and joint ventures are accounted for using an 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 balance sheet 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. 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 income statement.

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.

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 balance sheet. 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 cost and the value estimated according to IAS 37, 'Provisions, contingent liabilities and contingent assets'.

2.5 Foreign currency translation

(a) Functional and presentation currency

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

With effect from 2 February 2002, the litas has been pegged to the euro at exchange rate of LTL 3.4528 = EUR 1.

(b) Transactions and balances

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

2.6 Property, plant and equipment

Ilgalaikis materialusis turtas, kuriam priskiriamos hidroelektrinės ir hidroakumuliacinės bei šiluminės elektrinių turto grupės, apskaitomos savikaina, atėmus sukauptą nusidėvėjimą ir vertės sumažėjimą. Kitas ilgalaikis materialusis turtas apskaitomas perkainota verte, nustatyta remiantis periodiškais, ne rečiau kaip kartą per 5 metus nepriklausomų turto vertintojų arba Grupės vadovybės atliekamais turto vertinimais, sumažinta sukaupto nusidėvėjimo bei vertės sumažėjimo suma. Įsigijimo vertė apima ilgalaikio materialiojo turto dalių pakeitimo išlaidas, kai jos patiriamos, jei šios išlaidos atitinka turto pripažinimo kriterijus. Visas sukauptas nusidėvėjimas bei vertės sumažėjimas perkainojimo metu sudengiamas su bendrąja turto verte ir likusi suma koreguojama iki perkainotos turto vertės. Visos kitos remonto ir priežiūros sąnaudos apskaitomos pelno (nuostolio) straipsnyje, kai yra patiriamos.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in shareholders' equity. If the carrying amount of property, plant and equipment increases after revaluation and the carrying amount of these assets has suffered impairment in previous periods as a result of which expenses were recognised in profit or loss, the amount of the increase in the asset's carrying amount, net of depreciation, is deducted from expenses which were included in profit or loss in previous periods and the remaining amount of the increase is credited against the revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued amount of the asset (when the carrying amount increases after revaluation) charged to the income statement and depreciation based on the asset's original acquisition cost is transferred from revaluation reserve to retained earnings.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the revalued amounts to their residual values over their estimated useful lives (number of years), as follows:

Buildings	10–80
Structures and machinery and equipment:	
– electricity and communications equipment	20–25
– electricity distribution equipment	13–35
– electricity transmission equipment	15–55
– other equipment	5–75
Assets of Hydro Power Plant and Pumped Storage Power Plant:	
– hydrotechnical structures and equipment	75
– pressure pipelines	50
– hydro technical turbines	25–40
– other equipment	8–15
Assets of Thermal Power Plant:	
– constructions and infrastructure	10–70
– thermal and electricity equipment	10–60
– measuring devices and equipment	5–30
– other equipment	8–15
Motor vehicles	4–15
Other property, plant and equipment:	
– computer and telecommunication equipment	3–10
– tools, other property, plant and equipment	4–10

Property, plant and equipment include spare parts that can only be used in connection with a specific item of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate.

Borrowing costs directly attributable to the acquisition, construction or production of assets other than at fair value through profit or loss and that necessarily take a substantial time (more than one year) to get ready for intended use or sale (qualifying assets) are capitalised as part of the cost of those assets, if the commencement date for capitalisation is on or after 1 January 2009 (see note 2.18).

When property is retired or otherwise disposed of, the cost and related accumulated depreciation are derecognised and any related gains or losses are included in the statement of comprehensive income. Gains or losses on disposal of property, plant and equipment are determined as proceeds received on disposal less the book value of assets disposed. When revalued assets are disposed, the corresponding portion of revaluation reserve is transferred to retained earnings (deficit).

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

2.7 Intangible assets

(a) Patents and licences

Patents and licences are stated at acquisition cost. Trademarks and licences acquired in business combination are recorded at fair value at the date of acquisition. Trademarks and licences are accounted for at cost less accumulated amortisation. Amortisation is calculated using a straight-line basis over the estimated useful life of 3 to 5 years or a specific validity term of a licence and/or patent, if any. The Group has licences with indefinite useful life identified in the business combination in 2008 on acquisition of VST AB. Useful life is reviewed each year to determine whether events and circumstances continue to support an indefinite life assessment. See Note 6 for more details.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (2 to 4 years).

(c) Emission allowances

For detailed description of accounting policy for emission allowances see note 2.23.

(d) Other intangible assets

Intangible assets expected to provide economic benefits to the Group and the Company in future periods are valued at acquisition cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3 to 4 years.

2.8 Impairment of non-financial assets

At each reporting date, the Group reviews the book values of its property, plant and equipment and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets of the Group are also allocated to individual cash-generating units, otherwise they are allocated to the smallest groups of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at each reporting date, and whenever there is an indication that the asset may be impaired.

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.

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.

2.9 Investment property

Investment property, which consists of the Group's investments in buildings and constructions, is held to earn rentals or for capital appreciation. Investment property is recognised at fair value which is determined by independent properly qualified property valuers and based on recent experience in valuation of assets of similar nature.

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 Group, with the remainder being held for rental yields or for capital appreciation. If part of immovable property occupied by the Group can be sold separately, the 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 held for sale are stated at the lower of the carrying amount and fair value less costs to sell if the carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.11 Financial assets

The Company and the group classify their financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans granted and receivables. The classification of financial assets is based on the purpose of financial assets acquired, the management's intentions and whether the investments are quoted in active market. The management determines the classification of financial assets at initial recognition.

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

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

Financial assets at fair value through profit or loss

The Group's financial assets measured at fair value through profit or loss includes the derivative financial instruments only (see note 2.12).

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets traded in active market with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest rate method.

Effective interest rate method is used to calculate amortised cost of financial assets and allocate interest income over the relevant period. The effective interest rate exactly discounts estimated future cash inflows or outflows to net carrying amount of financial assets over the expected life of the financial instrument or a shorter period, if necessary.

Loans and receivables

Receivables are initially recognised at the fair value of consideration and subsequently carried at amortised cost using the effective interest rate method, less impairment loss, if any. Gains and losses are recognised in the statement of comprehensive income when the these assets are derecognised, impaired or amortised.

Amounts receivable under repurchase contracts where the Group and the Company enter into agreement with a finance institution to purchase securities and sell them back at a defined date and price in the future are classified as loans and receivables and accounted for at amortised cost. The difference between the purchase price and the sale price of securities is accounted for as interest income over the contract period.

Impairment of financial assets

At each reporting date the Group and the Company assess whether there is an indication that financial assets may be impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets. Evidence of impairment may include indications that the debtors or a group of debtors are 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 expected 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 for doubtful receivables account. Impaired trade receivable are written-off when they are identified as irrecoverable.

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

Derecognition of financial asset

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.

2.12 Derivative financial instruments

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

2.13 Inventories

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

2.14 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment loss. Impairment of trade receivables is recognised when there is objective evidence that the Group or the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (overdue more than 2 months) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of the allowance account, and the amount of the impairment loss is recognised in the income statement. When a trade receivable is irrecoverable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognised in the income statement as income.

2.15 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown under liabilities within current borrowings in the balance sheet.

2.16 Share capital

Ordinary shares are classified as equity.

When the Company acquires its own shares, the shares acquired are deducted from equity. For the purpose of the income statement, no gain or loss is recognised on the purchase, sale, issue or cancelation of the Company's own equity instruments.

Share premium represents the difference between the nominal value of the new share issue and the fair value of consideration received for the shares sold.

2.17 Trade payables

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

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the amount at initial recognition and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company and the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense during the period in which they are incurred, except when they are attributed to the acquisition, construction or production of qualifying assets.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time (more than one year) to get ready for intended use or sale (qualifying assets) 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.

2.19 Income tax and deferred income tax

Income tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount of income tax are those that are enacted or substantively enacted at the balance sheet date.

Current income tax is calculated on profit for the year, net of deferred income tax. Calculation of income tax is based on requirements of the Lithuanian regulatory legislation on taxation.

In 2011, a standard income tax rate of 15 per cent was applicable to the companies in Lithuania (2010: 15 per cent).

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is discontinued if the Company terminates the activities that caused these losses, except when the Company discontinues its activities due to the reasons that are beyond the Company's control. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred income tax

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

The carrying amounts of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available against which such deferred income tax assets could be utilised in full or in part.

Deferred income tax is determined using tax rates that are expected to apply when the related deferred income asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

2.20 Employee benefits

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 plan is a plan under which the Group and the Company pay fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within remuneration expenses.

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 terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Non-current benefits are recognised at present value discounted at market interest rate.

Gains or losses are recognised immediately in the Group's and the Company's statement of comprehensive income. All past service costs are recognised immediately.

Long-term employee benefits

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2–6 monthly salaries as stipulated in the Lithuanian laws and the collective employment agreement. A liability for such pension benefits is recognised in the balance sheet and it reflects the present value of these benefits at the date of the balance sheet. The aforementioned non-current liability for pension benefits to employees at the date of the balance sheet is determined with reference to actuary valuations using the projected credit unit method. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government bonds denominated in a currency in which the benefits will be paid to employees and that have maturity term similar to that of the related liability.

2.21 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. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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.

2.22 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with a transaction will flow to the Group and the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or services, net of value added tax, returns and discounts.

Revenue from sale of electricity to end customers

The Group's revenue from sale of electricity to endcustomers includes production, transmission, distribution, supply, public service obligations (PSO) and other services rendered in the process of sale of electricity to endcustomers. The prices of transmission, distribution and PSO servicesprovided by the Group companies are regulated by the National Control Commission for Prices and Energy.

Revenue from electricity sales to private customers is recognised when electricity is supplied. An estimate of accrued revenue is made to record electricity supplied but not yet declared by private customers at the end of each reporting period. This estimate is based on the historical experience and the average payment for electricity period by the customers.

Revenue from electricity sales to business customers is recognised when electricity is supplied based on the actual consumption of electricity which is determined based on meter readings.

Revenue from electricity export

Revenue from electricity export is recognised when substantially all the risks and rewards associated with sales of electricity are transferred to the customer.

Tariff regulation (transmission activities)

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 for tariffs of the transmission services and prices for PSO services. The specific prices and tariffs for the transmission services are established by the service provider within the limits approved by the Commission.

PSO service fees are the fees paid to the suppliers of electricity under the public service obligations scheme (based on pre-set allocations of annual quantities and prices for PSO services). These fees are collected from end users of electricity connected to the distribution system or the transmission network, using the tariff for PSO services established by the Commission.

The PSO service scheme is defined in the Description of the Procedure for the Provision of PSO Services approved by Oder No. 1–283 of the Lithuanian Minister of Energy on 8 October 2010. The Group (LITGRID AB, as a transmission system operator) administers PSO service fees and acts only as anagent in the process of collection and disbursement of PSO service fees.

When PSO service fees collected from customers by the Group during the previous calendar year exceed or are lower than actually disbursed PSO service fees, the Commission is obliged to take into account such difference in establishing the tariff for PSO services for the next year.

The Group collects PSO service fees from consumers and receives PSO services fees allocated to it. PSO service fees allocated to the group comprise as follows:
– fees allocated to the Company to cover administration costs of PSO service fees;
– fees allocated for operations of the Thermal Power Plant;
– grants from PSO service fees allocated for the development of the Group's strategic projects;
– PSO service fees allocated to cover balancing costs of electricity produced from renewable energy resources;
– PSO service fees for the connection of power generation facilities (using wind, biomass, solar energy or hydroenergy in the process of power generation) to transmission networks, for optimisation, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electricity from the producers using the renewable energy resources.

Seeking to ensure an accurate presentation of administration of PSO service fees, in January 2011 the Group introduced changes in the accounting policy applied to PSO service fees. The management considers that the Group does not act as an agent, which collecs PSO fees on behalf of the Commission/ Government, therefore, PSO service fees collected from consumers are not netted against the fees disbursed, except for consolidation adjustments comprising the Group's revenue from PSO service fees and grants.

The difference between the collected and disbursed amounts of PSO service fees is recognised by the Group in amounts receivable (payable).

Tariffs of electricity sold by the producers and independent suppliers as well as tariffs for capacity reserves are not regulated, except 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.

Tariff regulation (distribution activities)

Tariffs for electricity distribution are regulated by the National Control Commission for Prices and Energy (Commission) by establishing the upper limits on prices. The specific prices for the distribution services are established by the distribution network operator within the limits approved by the Commission.

Income from repair services

Income from specific projects, i. e. income from repair services, is recognised using the stage of completion method, based on which project costs actually incurred are compared against total estimated project costs. The probable change in profitability is recognised in the income statement when such change is established. The projects are reviewed regularly and the provisions are established for onerous contracts when such are identified.

Income from new customer connection

Fees received after 1 July 2009 for the connection of new customers and producers to electricity network and for the dislocation and reconstruction of electricity network facilities on request of the customer, producer or any other entity, are recognised as revenue upon connection.

The above-mentioned fees received before 1 July 2009 were initially recognised as deferred income and subsequently recognised as income on a proportionate basis over the useful life of the related newly created property, plant and equipment. The related costs comprising the acquisition cost of property, plant and equipment and other costs were capitalised and depreciated over the estimated useful life of the assets capitalised.

Interest income

Interest income is recognised on accrual basis using the effective interest rate method. For the purpose of the cash flow statement, interest received is attributed to investing activities, whereas for the purpose of the statement of comprehensive income, interest received is recognised as finance income.

Dividend income

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

Lease income

Lease income is recognised on a proportionate basis over the lease period.

Expense recognition

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

2.23 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 which started in 2005 and ended in 2007; the second period of operation covers 5 years starting in 2008 and ending in 2012, which 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.

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.

Intangible assets

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

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.

Government grant

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.

Provision for utilisation of emission allowances

As the Group 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 by the Group for the settlement of liability at the balance sheet date. 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.

Lending of emission allowances

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.

2.24 Operating and finance lease

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.

Leases where substantially all the risks and rewards of ownership of assets leased are transferred to the lessee are classified as finance lease. All other leases are classified as operating leases.

Where the Company and (or) the Group are lessors

Operating lease income is recognised on a straight-line basis over the lease term. Initial direct costs are added to the carrying amount of the asset leased and recognised over the lease term similarly as lease income.

Where the Company and (or) the Group are lessees

IFinance leases are capitalised at the commencement of the lease at the lower of the fair value of the property leased and at the present value of the minimum lease payments. Respective finance lease liability is recorded in the balance sheet. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are charged to the income statement.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Assets acquired under finance leases are depreciated over the estimated useful lives of assets. If the Group does not intend to exercise the option to acquire the asset leased at the end of the lease term, the asset is depreciated over the shorter of the useful life of the asset and the lease term.

2.25 Grants and subsidies

Asset-related grants

Government and the EU asset-related grants comprise grants received in the form of non-current assets or intended for the acquisition of non-current assets. Grants are initially recorded at the fair value of the asset received and subsequently recognised in the statement of comprehensive income by reducing the depreciation charge of the related asset over the expected useful life of the asset.

Income-related grants

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

2.26 Dividend distribution

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

2.27 Contingencies

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

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

2.28 Events after the end of the reporting period

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

2.29 Related parties

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

2.30 Inter-company offsetting

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

3 Financial risk management

3.1 Financial risk factors

The Group and the Company are exposed to a variety of financial risks in their operations: market risk (including foreign exchange risk, risk of regulated prices, risk of prices and fair value of financial instruments and securities and interest rate risk in relation to cash flows), credit risk and liquidity risk. In managing these risks the Group companies seek to mitigate the impact of factors which could adversely affect the Group's and the Company's financial performance results.

Market risk

Foreign exchange risk

In order to manage the foreign exchange risk, the Group and the Company enter into financing contracts only in the euros or litas. All purchases and sales are conducted by the Group and the Company in the euros or litas.

With effect from 1 February 2002, the exchange rate of the litas has been pegged to the euro. As all assets and liabilities of the Group are denominated in the euros or litas, fluctuations in foreign exchange rate do not have a significant impact on the Group's results of operations and assets. Therefore, the Group did not use any derivative financial instruments for managing exposure to foreign exchange risk in 2011 and 2010.

Interest rate risk

Interest rate risk is mostly affected by non-current borrowings bearing variable interest rates. The Group does not have financial assets stated at fair value with fixed interest rates, therefore, it is not exposed to fair value interest rate risk. Time deposits and amounts receivable under repurchase agreements bear fixed interest rate, therefore, they are not affected by interest rate risk.

In order to manage interest rate risk, the Group uses derivative financial instruments. Specifically the Group has entered into interest rate swap agreements enabling it to convert floating interest flows into fixed.

As at 31 December 2010 and 2011, the nominal value of the Group's borrowings with interest rate risk managed by interest rate swaps amounted to LTL 69,056 thousand. As at 31 December 2011, fair value of interest rate swaps comprised the liability of LTL 1,511 thousand (31 December 2010: liability of LTL 1,229 thousand).

The following table demonstrates the sensitivity of the Group's and the Company's profit to potential shift in interest rates.

Group	Increase/decrease in percentage points	(Decrease)/ increase in profit
2011	+1 %/–1 %	(5 707)/5 707
2010	+1 %/–1 %	(6 128)/6 128

Company	Increase/decrease in percentage points	(Decrease)/ increase in profit
2011	+1 %/–1 %	–
2010	+1 %/–1 %	(46)/46

Fair values of financial instruments

Only the Group's derivative financial instruments are stated at fair value. All other financial assets and financial liabilities are recognised initially at cost and subsequently measured at amortised cost, less impairment losses.

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

The carrying amount of the Group's and the Company's financial assets and financial liabilities approximates their fair value except for mortgage loans granted (see note 10) and borrowings of the Group company Lietuvos Energija AB (see note 18).

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

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

a) The carrying amount of current trade receivables and other receivables, current trade and other payables and current borrowings approximates their fair value.

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

Credit risk

The Group's and the Company's exposure to credit risk arises from operating activities of the companies (trade and other amounts receivable) and from financing activities (cash and cash equivalents, time deposits).

The Group and the Company are not exposed to significant credit risk concentration related to amounts receivable.

The Group and the Company invest free monetary funds only in low-risk money market instruments and debt securities, i.e. time deposits, bonds of creditworthy financial institutions, and Lithuanian government bonds. The priority objective of the Group's and the Company's treasury management is to ensure security of funds and maximise return on investments in pursuance of this objective. Risk of counterparties defaulting is managed by entering into transactions with reliable financial institutions with a long-term borrowing (in foreign currency) rating not lower than "A-" according to the rating agency Fitch Ratings (or an equivalent rating of other rating agencies). Based on the general guidelines of the Group's treasury management policy, the exception is granted to a counterparty in acquisition of the Lithuanian government bonds, provided a long-term borrowing (in national currency) rating is not lower than "BBB+" according to the rating agency Fitch Ratings (or an equivalent rating of other rating agencies).

The maximum exposure to credit risk as at 31 December 2011 and 31 December 2010 is equal to the carrying amount of each class of financial assets.

	Group		Company	
	2011	**2010**	**2011**	**2010**
Trade and other receivables	381 231	291 291	917	32
Short-term investments (time deposits and held-to-maturity financial assets)	291 874	50 500	154 155	2 066
Amounts receivable under repurchase contracts	–	3 000	–	3 000
Cash and cash equivalents	161 944	343 000	5 145	34 091
Total	**835 022**	**687 791**	**160 217**	**39 189**

Liquidity risk

The liquidity risk is managed by planning future cash flows of the Group companies and ensuring sufficient cash and availability of funding through committed credit facilities and overdrafts to support their operating activities. The refinancing risk is managed by ensuring that borrowings over a certain period were repaid from available cash, from cash flows expected from operating activities of the Group companies over that period, and from unwithdrawn committed credit facilities which have to be repaid in later periods.

As at 31 December 2011, the Group's gross liquidity ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 0.89 and 0.76, respectively (31 December 2010: 0.64 and 0.53, respectively).

The table below summarises the maturity profile of the Group's and the Company's financial liabilities under the contracts (based on contractual undiscounted payments of interest-bearing financial liabilities and the carrying amounts of other financial liabilities):

	2011				
Group	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Interest-bearing borrowings, finance lease and other liabilities	24 372	176 983	858 906	236 276	1296 537
Trade and other payables	416 937	–	–	–	416 937
At 31 December 2011	**364 435**	**176 983**	**858 906**	**236 276**	**1636 600**

Group	2010				
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Interest-bearing borrowings, finance lease and other liabilities	38 420	360 152	470 919	389 698	1 259 189
Trade and other payables	378 692	–	–	–	378 692
At 31 December 2010	**417 112**	**360 152**	**470 919**	**389 698**	**1 637 881**

Company	2011				
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Interest-bearing borrowings, finance lease and other liabilities	–	–	–	–	–
Trade and other payables	9 994				9 994
At 31 December 2011	**9 994**	**–**	**–**	**–**	**9 994**

Company	2010				
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Interest-bearing borrowings, finance lease and other liabilities	–	14 109	–	–	14 109
Trade and other payables	3 451	–	–	–	3 421
At 31 December 2010	**3 451**	**14 109**			**17 560**

3.2 Capital risk management

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public company must be not less than LTL 100 thousand (the authorised share capital of a private company must be not less than LTL 10 thousand) and the shareholders' equity should not be lower than 50 per cent of the company's authorised share capital. As at 31 December 2011 and 2010, the Company and all the Group companies complied with these requirements.

When managing the capital risk, the Group companies seek to maintain an optimal capital structure in a long run to ensure a consistent implementation of capital cost and risk minimisation objectives. The Group companies form their capital structure in view of internal factors relating to ordinary activities, the expected capital expenditures and developments, as well as based on external current or expected factors significant to operations relating to markets, regulation and local economic situation.

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

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

The preparation of financial statements according to International Financial Reporting Standards as adopted by the European Union requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. Change in the underlying assumptions, estimates and judgements may have a material effect on these consolidated financial statements.

Revaluation and impairment of assets

The Group and the Company account for property, plant and equipment (except for assets of Kaunas Hydro Power Plant, Kruonis Pumped Storage Power Plant and Thermal Power Plant) at fair value in accordance with International Accounting Standard 16 'Property, plant and equipment'. The fair value of almost all items of property, plant and equipment of the Group and the Company due to their specific nature was measured using a depreciated replacement cost approach at 31 December 2008.

If the value of assets is measured based on a depreciated replacement cost method, International Valuation Standards require that an adequate profitability test is performed. Accounting standards require a periodical review of property, plant and equipment for impairment. The value of property, plant and equipment should be reduced if its carrying value in the balance sheet is higher than its value in use or the fair value less cost to sell. In other words, the carrying amount of property, plant and equipment reported in the balance sheet should be written down to the higher of the present value of the future benefits that would be derived by the Group from the continued use of the assets and the proceeds it would derive from the asset's immediate write-off or disposal.

The previous version of the Lithuanian Law on Electricity effective as at 31 December 2008 stipulated that the upper limits of prices for electricity transmission, distribution and public supply services were determined based on the value of assets used in the licensed activities of the service provider established with reference to data reported in the service provider's financial statements (Regulated Assets Base).

According to the Amendment to the above-mentioned Law effective from 1 June 2009, the upper limits of prices for electricity transmission, distribution and public supply services are to be determined based on the value of assets used in the licensed activities of the service provider established and approved by the National Control Commission for Prices and Energy (the Commission) in accordance with the Principles for the determination of the value of assets used in the licensed activities of the service provider drafted by the Commission and approved by the Government.

According to the Resolution of the Government of the Republic of Lithuania *On the Approval of Principles for the Determination of the Value of Assets Used in the Licensed Activities of the Electricity Service Provider*, when determining the upper limits of prices for electricity transmission, distribution and public supply services, the value of assets used in the licensed activities of the service provider is equal to the net book value (carrying amount) of property, plant and equipment as at 31 December 2002 as increased by the amount of investments accomplished and agreed with the Commission and reduced by the depreciation amount calculated pursuant to the procedure stipulated in the Lithuanian Law on Income Tax.

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

As at 31 December 2011, independent valuation of assets was performed at the Group in respect of NT Valdos UAB, Tetas UAB and Kauno Energetikos Remontas UAB. In respect of Lietuvos Energijoje AB, revaluation was performed for property, plant and equipment stated at revalued amount. In respect of LESTO AB, revaluation was performed for assets transferred as in-kind contribution to Elektros Tinklo Paslaugos UAB on 1 January 2012. The valuations were conducted by independent property valuation companies.

As at 31 December 2010, no independent valuation was performed at the Group, except for a number of buildings and assets of the Group that in 2010 were transferred as in-kind contribution to the Group companies Technologijų ir Inovacijų Centras UAB, NT Valdos UAB, Elektros Tinklo Paslaugos UAB and Tetas UAB during the reorganization of the Group companies. The revaluation was carried out by independent valuation companies.

Based on management's decision, valuation of fair values for all other property, plant and equipment was not performed by independent valuers as at 31 December 2011 and 31 December 2010 due to the remaining uncertainties relating to the above-mentioned amendments to regulatory legislation.

As at 31 December 2010, impairment of property, plant and equipment of Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant amounting to LTL 560,298 thousand as at 31 December 2010 was assessed using the discounted cash flow method. The assessment took into account the expected production volumes, income and expenses that will be incurred to earn income over the entire estimated useful life of assets. The assessment included assumptions that production volumes, income and profit of both power plants will increase or remain stable; the electricity purchase and sale prices were established with reference to long-term price forecasts. A discount rate of 10.06 per cent was used. As the values in use established with respect to Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant were higher than the carrying amounts of respective items of property, plant and equipment, no impairment was recognised.

As at 31 December 2011, the carrying amount of property, plant and equipment of Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant amounted to LTL 537,320 thousand. In management's opinion, no indications of impairment existed for these assets, therefore, no impairment test was carried out in respect of these assets.

As at 31 December 2011 and 2010, the Group did not assess impairment in respect of property, plant and equipment of Thermal Power Station and believes that adjustment for impairment may be necessary as soon as uncertainties are resolved in relation to electricity tariffs and changes therein, regulated profitability and production volumes. According to the currently effective Description of PSO Services, the producers of electricity receive PSO service fees based on electricity actually produced per year and based on the established buyout prices.

Impairment of investments in the Company's subsidiaries

Although the shares of the Company's subsidiaries LESTO AB, Lietuvos Energija AB and LITGRID AB are traded on Vilnius stock exchange, the Group's management believes this market is not active enough so that the quoted stock prices could be treated as equivalent to the fair value of investments in subsidiaries at the balance sheet date. Due to significant uncertainties, as described in note 3 'Revaluation and impairment of assets', related to inability to assess reliably the impact on the Group's future cash flows of amendments to legal acts regulating the establishment of upper limits of prices for electricity transmission, distribution and public supply services, the Company did not carry out impairment tests for investments in subsidiaries as at 31 December 2011 and 31 December 2010. The Company's management believe that the value of investments in subsidiaries could not bemeasured reliably as at 31 December 2011 and 31 December 2010.

Impairment of goodwill and intangible assets not subject to amortisation

The consolidated financial statements include goodwill and licences with indefinite useful life that arose as a result of acquisition of VST AB in 2008. Due to significant uncertainties, as described in note 3 'Revaluation and impairment of assets', related to inability to assess reliably the impact on the Group's future cash flows of amendments to legal acts regulating the prices for electricity distribution and supply services, the Group did not carry out impairment tests for goodwill and licences with indefinite useful life. The Group's management believe the value of these assets of the Group could not be measured reliably as at 31 December 2011 and 31 December 2010.

Useful lives of property, plant and equipment

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

Accrued income

Revenue received from private customers is recognised based on the payments received, therefore at the end of each reporting period the amount of the revenue earned but not yet paid by private customers is estimated and accrued by the management of the Group company operating distribution networks. The Group's management has estimated that the majority of private customers declare and make payment for the electricity consumed on approx. the 20th day of the month, while electricity is supplied for a full month (30 or 31 days). Consequently, the volume of electricity used over the remaining 10 days is proportionally estimated based on total volume of electricity used by private customers during December and multiplied by the average rate per 1 kWh (Note 13).

Accounting for customer connection fees

Before 1 July 2009, the Group used to defer income received from new customer connections to the grid and recognise it as deferred income over the period of 31 years, which is the average useful life of electricity equipment constructed by the Group upon connection of new customers. Management of the distribution companies of the Group believe that the period of provision of services to customers is indefinite, therefore, the average useful life of electricity equipment constructed by the Group upon connection of new customers was used as the best estimate of the period over which connection fees paid customers were recognised as income.

With effect from 1 July 2009 and based on IFRIC 18 interpretation, the newly connected customers to the grid do not obtain any additional future benefits as compared to all the remaining customers, consequently, the provision of connection service is treated as completed and income from connection is recognised upon the connection of a new customer (Note 22).

Impairment of amounts receivable

Impairment losses were determined in respect of amounts receivable based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments.

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

Current estimates of the Group could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

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 Group's management is not aware of any circumstances that might result in a potential material liability in this respect.

Amortisation rates of licences

Indefinite useful lives were established for the licences of distribution system operator and public supply services that were acquired on a business combination in 2008 because the validity term of these licences can be extended at no significant efforts or costs.

Construction in progress

Costs attributable to research activities, assessments, engineering works carried out to obtain the construction permit for the nuclear power plant are capitalised as part of the cost of construction in progress. Costs that are not directly related to obtaining the construction permit are recognised as operating expenses in the statement of comprehensive income. Costs capitalised as part of the cost of construction of nuclear power plant amounted to LTL 11.3 million as at 31 December 2011 (31 December 2010: LTL 10.8 million).

In management's opinion it is probable that the Company will implement the construction project of the nuclear power plant and the above-mentioned assets will provide economic benefits to the Company in future periods longer than one year.

Held-to-maturity securities

The Group/Company follows the requirements of IAS 39, based on which non-derivative financial assets with fixed or otherwise determinable payments and fixed maturity terms are classified as held-to-maturity. For the purpose of such classification, the Group/Company assesses its intentions and abilities to hold these investments to maturity. If the Group/Company were not able to hold these investments to maturity due to other than specific circumstances, for instance, sells an insignificant part of securities close to maturity, the Group/Company would have to reclassify the entire group as available-for-sale financial assets and measure investment at fair value rather than at amortised cost. If all held-to-maturity investments were reclassified to other category of assets, the carrying amount would not change significantly.

Provision for utilisation of emission allowances

The Group estimates provision for utilisation of emission allowances based on actual emissions over the reporting period multiplied by the market price for one unit of emission allowances. Actual emissions are approved by a relevant regulating state over the period of 4 months after the year end. Based on its past experience, the Group's management do not expect any significant differences between the estimated provisions as at 31 December 2011 and emissions that will be approved for 2012.

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 National Commission for Control of Prices and Energy which include breakdown of variable electric power production costs – natural gas, heavy fuel oil, and emission allowance costs. The variable part of PSO service fees for the next calendar year is estimated with reference to expected variable costs to be incurred in the production of the approved quota of electricity subject to compensation. Upon allocation of PSO service fees for 2011 as a compensation for variable production costs, the Commission established a price for natural gas equal to LTL 1,000 per one thousand m^3. As a result of significant increase in gas prices in 2011, the average actual price of natural gas reached LTL 1,225 per one thousand m^3. Accordingly, as at 31 December 2011 the Group's management accounted for LTL 96,030 thousand revenue from PSO service fees received as compensation for the difference in gas prices.

5 Changes in accounting policies and correction of errors. Restatement of comparative figures

When preparing the consolidated financial statements of Visagino Atominė Elektrinė UAB as at 31 December 2011 and for the year then ended, the following adjustments were made to the comparative figures.

Change in accounting policies in relation to PSO service fees of LITGRID AB

Before the year 2011, all PSO service fees received by the Group's company LITGRID AB were recorded as income earned, whereas all PSO service fees disbursed were recorded as expenses incurred. PSO service fees were accounted for in the same manner in the consolidated financial statements of Visagino Atominė Elektrinė UAB, after elimination of inter-company transactions.

In performing PSO service activities LITGRID AB acts only as an agent on behalf of the Commission/Government and these activities do not generate revenue/profit in the ordinary course of business. A relevant resolution has been passed by the Lithuanian Government which stipulates that LITGRID AB acts only as an administrator/agent and LITGRID AB and the Commission have separate systems to account for and to monitor these transactions.

Seeking to ensure the accuracy of presentation of the Group's financial position, financial performance results and cash flows and reflect the actual economic substance of PSO administration activities, in 2011 management resolved to make changes in the accounting policies applied to PSO service fees being administered.

Given the fact that LITGRID AB acts only as an agent on behalf of the Commission/Government, PSO service fees collected by this company are netted against the disbursements made to the electricity producers in the company's statement of comprehensive income.A difference between PSO service fees collected and disbursed is recognised within amounts receivable (payable).

In management's opinion, the Group does not act as agent in collecting PSO service fees on behalf of the Government, accordingly, PSO service fees collected from consumers are not netted against the disbursements, except for adjustments on consolidation that comprise the Group's revenue from PSO service fees and grants. The difference between PSO service fees collected/received by the Group and allocated/disbursed by the Commission is reported within amounts receivable (payable).

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

Correction of error in relation to PSO service fees of Lietuvos Energija AB

In 2010, PSO service fees for electricity produced by Lietuvos Elektrinė AB and required to ensure security and reliability of electricity supply were paid to Lietuvos Elektrinė AB based on Resolution No. O3-216 of the National Control Commission for Prices and Energy (the Commission) of 24 November 2009. This Resolution prescribed the buyout price for electricity produced for the year 2010 equal to 29.31 ct/kWh. On 24 November 2009 the Ministry of Energy of the Republic of Lithuania ("the Ministry") issued the Description of the Procedure for the Provision of PSO Services ("the Description") in order to regulate the methodology of paying PSO service fees in accordance with the Resolution of the Commission. On 27 June 2010 the Ministry issued an amendment to this Description, which allowed the Company to account for electricity of any origin (whether produced or acquired by the Company) supplied by the Company to the transmission network as the production of electricity supported from PSO service fees. Other legal acts regulating the provision and administration of PSO services were not subject to amendments and stipulated that only electricity produced by Lietuvos Elektrinė AB may be recognised as PSO service. The 27 June 2010 amendment was itself amended again on 4 February 2011 to re-establish the previously effective provision, which provided that only electricity produced at the Company may be recognised as PSO service.

Pursuant to the 27 June 2010 amendment to the Description, in 2010 Lietuvos Elektrinė AB recognised revenue from PSO service fees received for the imported electricity supplied to the transmission network for the total amount of LTL 49,607 thousand.

On 25 October 2011, the allocation of PSO service fees for the year 2012 was based on the Commission's Statement No. O5-275, wherein PSO service fees payable in 2012–2015 were reduced by PSO service fees received for the imported electricity.

CIn the opinion of management, the accounting for this revenue should have been based not only on 27 June 2010 amendment to the Description, but also in view of all other legal acts in effect at that time because the financial statements for the year 2010 were prepared with legal acts in effect providing for the possibility to recognise revenue from PSO service fees only the income received for electricity produced at LietuvosElektrinė AB. Therefore, the fees in the above-mentioned amount will be recognised as PSO service revenue over the period of 2012–2015.

Consequently, when preparing the financial statements for the year 2011, adjustments were made to the comparative figures. Consolidated sales revenue for 2010 was reduced by LTL 49,607 thousand, and a liability representing deferred income was recognised in the amount of LTL 49,607 thousand as of 31 December 2010.

Correction of error in relation to accounting for onerous contract for acquisition of emission allowances

In the year 2011, the Group noted a significant error pertaining to the year ended 31 December 2010. As at 31 December 2010, the Group did not account for the contract for acquisition of emission allowances, which appeared to be onerous and had to be accounted for under the requirements of IAS 37, Provisions, contingent liabilities and contingent assets. When correcting this error, the Group established provisions as at 31 December 2010 for the onerous contract, reduced the deferred income tax liability and reported on a retrospective basis.

Correction of error in relation to accounting for lending of emission allowances

In 2009, Lietuvos Elektrinė AB signed an agreement with STX Services BV on lending emission allowances. In the financial statements as at 31 December 2009 and 2010, the Group classified the emission allowances lent as non-current intangible assets. In the opinion of the Group's management, this error is significant to the Group's financial information, therefore, it was corrected retrospectively. When correcting this error, the Group adjusted the figures as at 31 December 2009 and 2010 by reducing the value of non-current intangible assets and increasing the value of other non-current assets.

Correction of error in relation to accounting for impairment of Units No. 3 and 4 of the Lithuanian Power Plant

In 2011, the Group's management resolved to establish a provision for impairment of Units No. 3 and 4 of the Lithuanian Power Plant 10, based on the requirements of the agreement signed on 18 February 2010 with the European Bank for Reconstruction and Development, whereby Lietuvos Elektrinė AB is obliged to close Units No. 3 and 4 of the Lithuanian Power Plant. The provision for impairment was recognised for the total book value of both Units and was accounted for by adjusting the figures as at 31 December 2009 and reducing the value of property, plant and equipment.

Effect of changes in accounting policies and correction of errors

Information about the effect of changes in accounting policies on the Group's assets, liabilities, equity and profit as at 31 December 2009 and 2010 is given in the table below.

The Group's statement of financial position as at 31 December 2009	Amount before adjustment	LITGRID AB PSO service fees	Lietuvos Energija AB emission allowances lent	Lietuvos Energija AB impairment of Units No. 3 and 4	Amount after adjustment
Non-current assets					
Intangible assets	330 423	–	(9 309)	–	321 114
Property, plant and equipment	9 731 307	–	–	(77 151)	9 654 156
Amounts receivable after one year and other assets	18 040	–	9 309	–	27 349
TOTAL ASSETS	**11 181 466**	**–**	**–**	**(77 151)**	**11 104 315**
Equity					
Retained earnings (deficit)	4 980 654	(24 737)	–	(73 710)	4 882 207
Non-controlling interest	900 800	(1 663)	–	(3 441)	895 696
Amounts payable within one year and liabilities					
Other current amounts payable and liabilities	207 336	26 400	–	–	233 736
TOTAL EQUITY AND LIABILITIES	**11 181 466**	**–**	**–**	**(77 151)**	**11 104 315**

The Group's statement of financial position as at 31 December 2010	Amount before adjustment	LITGRID AB revenue from PSO service fees	Lietuvos Energija AB revenue from PSO service fees	Lietuvos Energija AB onerous contract	Lietuvos Energija AB emission allowances lent	Lietuvos Energija AB impairment of Units No. 3 and 4	Amount after adjustment
Non-current assets							
Intangible assets	363 130	–	–	–	(19 325)	–	343 805
Property, plant and equipment	10 144 786	–	–	–	–	(75 155)	10 069 631
Amounts receivable after one year and other assets	11 266	–	–	–	19 325	–	30 591
TOTAL ASSETS	**11 505 014**	**–**	**–**	**–**	**–**	**(75 155)**	**11 429 859**
Equity							
Retained earnings (deficit)	1 121 186	(11 219)	(46 210)	(22 944)	–	(70 008)	970 805
Non-controlling interest	800 323	(288)	(3 397)	(1 686)	–	(5 147)	789 805
Amounts payable within one year and liabilities							
Deferred income tax liability	799 997	–	–	(4 347)	–	–	795 650
Provisions	6 254			15 907			22 161
Other non-current amounts payable and liabilities	5 507	–	49 607	–	–	–	55 114
Amounts payable within one year and liabilities							
Advance amounts received	42 449	–	–	–	–	–	42 449
Provisions	55 894	–	–	13 070	–	–	68 964
Other current amounts payable and liabilities	250 621	11 507	–	–	–	–	262 128
TOTAL EQUITY AND LIABILITIES	**11 505 014**	**–**	**–**	**–**	**–**	**(75 155)**	**11 429 859**

The Group's statement of comprehensive income as at 31 December 2010	Amount before adjustment	LITGRID AB revenue from PSO service fees	Lietuvos Energija AB revenue from PSO service fees	Lietuvos Energija AB onerous contract	Lietuvos Energija AB emission allowances lent	Lietuvos Energija AB impairment of Units No. 3 and 4	Amount after adjustment
Revenue							
Sales revenue	3 016 662	(56 369)	(49 607)	–	–	–	2 910 686
Operating expenses							
Purchases of electricity or related services	(1 255 002)	71 262	–	–	–	–	(1 183 740)
Depreciation and amortisation	(648 273)	–	–	–	–	1 996	(646 277)
Other expenses	(198 150)	–	–	(28 977)	–	–	(227 127)
Deferred income tax (expense) income	69 645	–	–	4 347	–	–	73 992
Net profit (loss) for the year	**18 443**	**14 893**	**(49 607)**	**(24 630)**	**–**	**1 996**	**(38 905)**

6 Intangible assets

Group	Patents and licences	Computer software	Emission allowances	Other intangible assets	Goodwill	Total
At 31 December 2009						
Acquisition cost	120 106	51 925	17 890	2 586	178 427	370 934
Accumulated amortisation	(2 144)	(45 775)	–	(1 472)	–	(49 391)
Accumulated impairment	–	(105)	–	–	(324)	(429)
Net book amount at 31 December 2009	**117 962**	**6 045**	**17 890**	**1 114**	**178 103**	**321 114**
Net book amount at 31 December 2009	117 962	6 045	17 890	1 114	178 103	321 114
Additions	66	3 325	114 090	65	–	117 546
Revaluation	839	514	–	24	–	1 377
Reclassified from/to PP&E	–	1 540	–	–	–	1 540
Write-off/emission allowances utilised	–	(15)	(26 909)	–	–	(26 924)
Lending of emission allowances	–	–	(9 864)	–	–	(9 864)
Disposals	–	–	(40 579)	–	–	(40 579)
Revaluation of emission allowances	–	–	(16 937)	–	–	(16 937)
Reversal of impairment	–	52	–	–	–	52
Amortisation charge	(524)	(2 075)	–	(769)	–	(3 368)
Net book amount at 31 December 2010	**118 343**	**9 386**	**37 691**	**434**	**178 103**	**343 957**
At 31 December 2010						
Acquisition cost	121 013	45 674	37 691	2 466	178 427	385 271
Accumulated amortisation	(2 670)	(36 235)	–	(2 032)	–	(40 937)
Accumulated impairment	–	(53)	–	–	(324)	(377)
Net book amount	**118 343**	**9 386**	**37 691**	**434**	**178 103**	**343 957**
Net book amount at 31 December 2010	118 343	9 386	37 691	434	178 103	343 957
Additions	583	981	153 647	100	–	155 311
Revaluation	–	–	(62 720)	–	–	(62 720)
Reclassified from/to PP&E	552	3 573	–	526	–	4 651
Write-off/emission allowances utilised	(5)	(5)	(54 212)	–	–	(54 222)
Disposals	–	–	(38 947)	–	–	(38 947)
Amortisation charge	(363)	(4 025)	–	(300)	–	(4 688)
Net book amount at 31 December 2011	**119 110**	**9 910**	**35 459**	**760**	**178 103**	**343 342**
At 31 December 2011						
Acquisition cost	119 492	21 354	35 459	1 051	178 427	355 783
Accumulated amortisation	(382)	(11 444)	–	(291)	–	(12 117)
Accumulated impairment	–	–	–	–	(324)	(324)
Net book amount	**119 110**	**9 910**	**35 459**	**760**	**178 103**	**343 342**

The carrying amount of licences with indefinite useful life acquired by the Group in 2008 amounted to LTL 117,951 thousand as at 31 December 2011.

As at 31 December 2011 and 31 December 2010, the Group did not carry out impairment test in respect of goodwill and licences with indefinite useful life due to uncertainties described in note 4 *Critical accounting estimates and judgements used in the preparation of the financial statements.*

Company	Other intangible assets	Total
At 31 December 2009		
Acquisition cost	287	287
Accumulated amortisation	(78)	(78)
Net book amount	**209**	**209**
Net book amount at 31 December 2009	209	209
Additions	–	–
Amortisation charge	(71)	(71)
Net book amount at 31 December 2010	**138**	**138**
At 31 December 2010		
Acquisition cost	287	287
Accumulated amortisation	(149)	(149)
Net book amount	**138**	**138**
Net book amount at 31 December 2010	138	138
Additions	–	–
Amortisation charge	(72)	(72)
Net book amount at 31 December 2011	**66**	**66**
At 31 December 2011		
Acquisition cost	287	287
Accumulated amortisation	(221)	(221)
Net book amount	**66**	**66**

The Group and the Company have no internally created intangible assets.

7 Property, plant and equipment

Group	Land	Buildings	Structures and machinery	Assets of Hydro Power Plant, Pumped Storage Power Plant and Thermal Power Plant	Motor vehicles	Other PP&E	Construction in progress	Total
At 31 December 2009								
Cost or revalued amount	800	600 721	6949 993	2083 725	91 914	223 618	825 194	10775 965
Accumulated depreciation	–	(27 695)	(378 520)	(557 605)	(33 281)	(37 324)	–	(1034 425)
Accumulated impairment	–	(4 953)	(4 013)	(77 920)	–	(256)	(242)	(87 384)
Net book amount	**800**	**568 073**	**6567 460**	**1448 200**	**58 633**	**186 038**	**824 952**	**9654 156**
Net book amount at 31 December 2009	800	568 073	6567 460	1448 200	58 633	186 038	824 952	9654 156
Additions	7 548	383	10 322	16 845	1 841	16 011	976 720	1029 670
Assets used as in-kind contribution to share capital	–	3 774	85 665	–	–	510	824	90 773
Revaluation	18	(15 644)	(803)	–	3 931	5 479	(3 249)	(10 268)
Disposals	–	(1 212)	(1 422)	–	(502)	(48)	–	(3 184)
Write-offs	(79)	(119)	(16 474)	(319)	(109)	(157)	(566)	(17 823)
Impairment	–	(208)	–	–	–	–	–	(208)
Reversal of impairment	–	2 497	400	–	3	132	301	3 333
Reclassifications between groups	–	9 115	245 823	513 184	1 149	8 773	(778 044)	–
Reclassified to assets, intangible assets	–	–	–	–	(245)	(1 243)	(297)	(1 785)
Reclassified to assets held for sale/	–	2	–	–	–	(266)	–	(264)
Reclassified to/from inventories	–	–	–	4 233	47	–	–	4 280
Reclassified to investment property	–	(30 222)	(300)	–	–	–	–	(30 522)
Depreciation charge	–	(28 327)	(513 915)	(51 091)	(12 675)	(42 519)	–	(648 527)
Net book amount at 31 December 2010	**8 287**	**508 112**	**6376 756**	**1931 052**	**52 073**	**172 710**	**1020 641**	**10069 631**
At 31 December 2010								
Cost or revalued amount	8 287	540 065	7011 919	2617 668	79 752	275 072	1021 021	11553 784
Accumulated depreciation	–	(27 482)	(630 160)	(610 692)	(27 649)	(100 132)	(353)	(1396 468)
Accumulated impairment	–	(4 471)	(5 003)	(75 924)	(30)	(2 230)	(27)	(87 685)
Net book amount	**8 287**	**508 112**	**6376 756**	**1931 052**	**52 073**	**172 710**	**1020 641**	**10069 631**
Net book amount at 31 December 2010	8 287	508 112	6376 756	1931 052	52 073	172 710	1020 641	10069 631
Additions	–	899	6 676	906	3 927	10 150	627 137	649 695
Revaluation	(130)	5 089	(6 647)	–	(1 950)	(35)	–	(3 673)
Disposals	–	(188)	(26)	(307)	(862)	(136)	–	(1 519)
Write-offs	–	(170)	(27 809)	(267)	(8)	(287)	(2 989)	(31 530)
Impairment	–	(73)	(132)	–	–	–	–	(205)
Reversal of impairment	–	–	7 939	–	–	195	255	8 389
Reclassifications between groups	–	10 072	311 831	4 805	257	(1 530)	(328 392)	(2 957)
Reclassified to assets, intangible assets	(6)	–	–	–	–	(157)	(3 766)	(3 929)
Reclassified to assets held for sale	–	(1 530)	2 062	–	40	208	–	780
Reclassified to investment property	–	(44 466)	(10 766)	–	–	–	(221)	(55 453)
Reclassified to/from inventories	–	–	–	–	–	4 145	(26)	4 119
Depreciation charge	–	(25 590)	(509 235)	(68 203)	(7 484)	(37 441)	–	(647 953)
Net book amount at 31 December 2011	**8 151**	**452 155**	**6150 649**	**1867 986**	**45 993**	**147 822**	**1312 639**	**9985 395**
At 31 December 2011								
Cost or revalued amount	8 151	504 575	7169 007	2620 562	78 232	277 627	1312 639	11970 793
Accumulated depreciation	–	(50 211)	(1009 212)	(674 656)	(32 208)	(129 077)	–	(1895 364)
Accumulated impairment	–	(2 209)	(9 146)	(77 920)	(31)	(728)	–	(90 034)
Net book amount	**8 151**	**452 155**	**6150 649**	**1867 986**	**45 993**	**147 822**	**1312 639**	**9985 395**

Company	Other PP&E	Construc-tion in progress	Total
At 31 December 2011			
Cost or revalued amount	38	5 856	5 894
Accumulated depreciation	(4)		(4)
Net book amount	**34**	**5 856**	**5 890**
Net book amount at 31 December 2009	34	5 856	5 890
Additions	–	4 920	4 920
Depreciation charge	(8)	–	(8)
Net book amount at 31 December 2010	**26**	**10 776**	**10 802**
At 31 December 2010			
Cost or revalued amount	38	10 776	10 814
Accumulated depreciation	(12)	–	(12)
Net book amount	**26**	**10 776**	**10 802**
Net book amount at 31 December 2010	26	10 776	10 802
Additions	29	505	534
Depreciation charge	(9)	–	(9)
Net book amount at 31 December 2011	**46**	**11 281**	**11 327**
At 31 December 2011			
Cost or revalued amount	67	11 281	11 348
Accumulated depreciation	(21)	–	(21)
Net book amount	**46**	**11 281**	**11 327**

In 2010,the revaluation was performed only in respect of the Group's buildings and property, plant and equipment that in 2010 was transferred as in-kind contribution to the Group companies Technologijų ir Inovacijų Centras UAB, NT Valdos UAB (formerly known as KruonioInvesticijos UAB), Elektros Tinklo Paslaugos UAB and Tetas UAB during the reorganization of the Group companies. The revaluation was carried out by the independent valuation companies. The net book amount of revalued assets equalled LTL 276,985 thousand as at 31 December 2010.

As at 31 December 2011, independent valuation of assets was performed at the Group in respect of NT Valdos UAB, TETAS UAB and Kauno Energetikos Remontas UAB. In respect of Lietuvos Energijoje AB, revaluation was performed for property, plant and equipment stated at revalued amount. In respect of LESTO AB, revaluation was performed for assets transferred as in-kind contribution to Elektros tinkle paslaugosUAB on 1 January 2012. The valuations were conducted by independent property valuation companies. The net book amount of revalued assets equalled LTL 132,197 thousand as at 31 December 2011.

Information on results of revaluation carried out in 2009 and 2010 is summarised in the table below:

Group	Decrease recognised in other comprehensive income and revaluation reserve in equity	Income (expenses) recognised in profit and loss	Total revaluation effect
(Increase) decrease in net book amount as at 31 December 2011	(8 692)	12 365	3 673
(Increase) decrease in net book amount as at 31 December 2010	(34 495)	44 763	10 268

The table below includes the carrying amounts of the Group's property, plant and equipment that would have been recognised, had these assets beencarried at cost method as of 31 December 2011 and 2010:

Group	Land	Buildings	Structures and machinery	Assets of Hydro Power Plant, Pumped Storage Power Plant and Thermal Power Plant	Motor vehicles	Other PP&E	Construc-tion in progress	Total
At 31 December 2011	7 881	507 063	4 877 265	1 867 987	49 073	147 679	1 312 639	8 769 587
At 31 December 2010	7 887	553 547	5 034 479	1 931 052	47 932	163 826	1 019 292	8 758 015

The table below includes the net book amountsof the Group's and the Company's property, plant and equipment acquired under finance lease contracts as at 31 December 2011 and 2010:

	Group		Company	
	2011	2010	2011	2010
Plant and machinery	2 829	3 771	–	–
Motor vehicles	75	67	–	–
Carrying amount	**2 904**	**3 838**	**–**	**–**

During the year 2011, the Group's capitalised borrowing costs on loans relating to the development of non-current assets amounted to LTL30,764 thousand (2010: LTL 14,945 thousand). The average interest rate of capitalised borrowing costs was 3.95% (2010: 4.11%).

The Group has significant contractual commitments to purchase property, plant and equipment to be fulfilled in later periods. The Group's commitments to purchase and construct property, plant and equipment amounted to LTL 864 million as at 31 December 2011 (31 December 2010: LTL 1,192 million).

As at 31 December 2011, the Group had pledged to the banks property, plant and equipment with the valueof LTL 422,627 thousand (31 December 2010: LTL 303,156 thousand).

8 Investment property

Group	Investment property
Carrying amount at 31 December 2009	17 260
Reclassification from property, plant and equipment	30 522
Impairment	(411)
Carrying amount at 31 December 2010	**47 371**
Carrying amount at 31 December 2010	47 371
Reclassification from property, plant and equipment	55 453
Increase in value	5 973
Impairment	(15 223)
Carrying amount at 31 December 2011	**93 574**

In 2011, the Group's income from lease of investment property amounted to LTL 814 thousand (2010: LTL 553 thousand).

The fair value of investment property as at 31 December 2010 was determined in October 2010 by independent valuersRe&Solution UAB using the comparable market price method. In the opinion of the Group's management, the value of investment property determined under the above-mentioned method as at 31 December 2010 approximated its fair value.

The fair value of investment property as at 31 December 2011 was determined in December 2011 by independent valuersInReal UAB and the Company's internal property valuation experts using the comparable market price method. In the opinion of the Group's management, the value of investment property determined under the above-mentioned method as at 31 December 2011 approximated its fair value.

The Company had no investment property in 2011 and 2010.

9 Investments in subsidiaries

During the reorganisation of the energy sector in June 2010, the Company's authorised share capital was paid up by in-kind contributions, by contributing the shares of other companies (Note 16), and the Company acquired control over the following companies:

Group companies	Acquisition cost	Ownership interest, %
Subsidiaries:		
Lietuvos Energija AB	1 463 010	93,70 %
VST AB	966 918	98,21 %
Rytų Skirstomieji Tinklai AB	775 819	71,35 %
Lietuvos Elektrinė AB	598 964	95,54 %
	3 804 711	

Following the acquisition of control over the above-listed companies, the Company acquired additional portion of shares of Lietuvos Energija AB in exchange for theshares ofLietuvos Elektrinė AB. These transactions resulted in changes in equity attributable to owners of the Company and non-controlling interest and reduced the Group's equity by LTL 38,971 thousand (see *Statement of changes in equity*). The effect of these transactions on the value of the Company's investments in subsidiaries is summarised in the table below:

Lietuvos Energija AB	**Value**	**Ownership interest, %**
The company's share capital paid up by the shares of Lietuvos Energija AB (Note 16)	1 463 010	93,70 %
Acquisition of additional portion of shares of Lietuvos Energija AB from LEO LT AB in liquidation (non-monetary transaction)	38 971	2,70 %
New issue of shares of Lietuvos Energija AB paid up by the shares of Lietuvos Elektrinė AB	572 180	1,00 %
New issue of shares of Lietuvos Energija AB paid up by non-current assets	57 304	0,10 %
	2 131 465	**97,50 %**
Lietuvos Energija AB	1 017 997	97,50 %
Lietuvos Elektrinė AB	1 113 468	97,50 %
	2 131 465	

On 30 November 2010, Lietuvos Energija AB transferred electricity transmission system to LITGRID Turtas AB, including the activities relating to its management, maintenance andoperation. LITGRID Turtas AB took over all the assets, rights and liabilities relating to spin-off activities from Lietuvos Energija AB.

The distribution of authorised share capital and number of shares transferred to LITGRID Turtas AB was conducted in proportion to the number of shares held in the authorised share capital of Lietuvos Energija AB by each shareholder before the spin-off.

Lietuvos Elektrinė AB	**Value**	**Ownership interest, %**
The company's share capital paid up by the shares (Note 16)	598 964	95,54 %
New issue of shares of Lietuvos Energija AB paid up by the shares of Lietuvos Elektrinė AB	(572 180)	–91,27 %
Disposal of the remaining portion of shares of Lietuvos Elektrinė AB to Lietuvos Energija AB	(26 784)	–4,27 %
	–	**–**

Following the completion of the above-mentioned transactions, the Company's ownership interests in the Group companies as at 31 December 2010 were as follows:

Group company	**Acquisition cost**	**Impairment**	**Carrying amount**	**Ownership interest, %**
Subsidiaries:				
Lietuvos Energija AB	1 017 997	–	1 017 997	97,50
LITGRID Turtas AB	1 113 468	–	1 113 468	97,50
VST AB	966 919	–	966 919	98,21
Rytų Skirstomieji Tinklai AB	775 818	–	775 818	71,35
	3 874 202	**–**	**3 874 202**	
Investments:				
Technologijų ir Inovacijų Centras UAB	500	–	500	1,12
NT Valdos UAB	100	–	100	0,03
	600	**–**	**600**	
	3 874 802	**–**	**3 874 802**	

On 1 January 2011 at 00:00 am VST AB was merged with Rytų Skirstomieji Tinklai AB and a new company LESTO AB was established, which took over all the assets, rights and obligations of the above-mentioned companies. LESTO AB continues the licensed activities of electricity distribution and public supply that were previously conducted by VST AB and Rytų Skirstomieji Tinklai AB.

During the extraordinary general shareholders meeting of LITGRID Turtas AB on 24 January 2011, the Company's shareholders approved the terms and conditions for reorganisation of LITGRID Turtas AB and LITGRID AB and resolved to reorganise LITGRID Turtas AB and LITGRID AB by way of merger pursuant to paragraph 3 of Article 2.97 of the Lithuanian Civil Code and the terms and conditions for reorganisation of LITGRID Turtas AB and LITGRID AB, whereby LITGRID AB, which ceases its activities as a legal entity after the reorganisation, is merged with LITGRID Turtas AB, which continues its activities after the reorganisation and which takes over all assets, rights and obligations of LITGRID AB.

On 14 March 2011, the revised version of the Articles of Association of LITGRID AB was registered with the Register of Legal Entities, and the name of LITGRID Turtas AB was changed into LITGRID AB.

Lietuvos Energija AB and Lietuvos Elektrinė AB were reorganised by way of merger on 1 September 2011. On the date of merger, the authorised share capital of Lietuvos Energija AB amounted to LTL 489,282,926 and was divided into 489,282,926 ordinary registered shares with par value of LTL 1 each, whereas the authorised share capital of Lietuvos Elektrinė AB amounted to LTL 145,800,689 and was divided into 145,800,689 ordinary registered shares with 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 Lietuvos Energija AB (after the reorganisation) in exchange for 1 share of Lietuvos Energija AB (before the reorganisation), and 1.37 shares of Lietuvos Energija AB (after the reorganisation) in exchange for 1 share of Lietuvos Elektrinė AB. The procedure of share exchange was defined in the Terms and Conditions of Reorganisation of Lietuvos Energija AB and Lietuvos Elektrinė AB which were approved by the decision of the Board during the meeting held on 11 May 2011.

The Company's ownership interests in the Group companies as at 31 December 2011 were as follows:

Group company	Acquisition cost	Impairment	Carrying amount	Ownership interest, %
Subsidiaries:				
Lietuvos Energija AB	1 017 997	–	1 017 997	96,13
LITGRID AB	1 113 468	–	1 113 468	97,50
LESTO AB	1 742 737	–	1 742 737	82,63
	3 874 202	**–**	**3 874 202**	
Investments:				
Technologijų ir Inovacijų Centras UAB	500	–	500	0,65
NT Valdos UAB	100	–	100	0,03
	600	**–**	**600**	
	3 874 802	**–**	**3 874 802**	

The Company has indirect control over NT Valdos UAB and Technologijų ir Inovacijų Centras UAB. The effective control is disclosed in Note 1.

Structure of the Group's investments in the associates and the joint venture as at 31 December 2011 and 31 December 2010 was as follows:

Group	2011		2010	
	Carrying amount	Group's ownership interest, %	Carrying amount	Group's ownership interest, %
Acquisition cost:				
Geoterma UAB	7 396	23,44	7 396	23,44
Nordic Energy Link AS	21 175	25,00	21 175	25,00
Enmašas UAB	20	23,44	20	23,44
LitPol Link Sp.z.o.o	1 020	50,00	1 020	50,00
Total	**29 611**		**29 611**	
Effect of equity method	1 473		286	
Impairment	(2 287)		(2 287)	
Carrying amount	**28 797**		**27 610**	

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

Group	Assets	Liabilities	Sales revenue	Net profit (loss)
Geoterma UAB	49 408	13 870	13 396	96
Nordic Energy Link AS	294 810	203 594	47 683	4 043
LitPol Link Sp.z.o.o	1 398	459	2 834	307
Enmašas UAB	–	–	–	–

The financial position of associates and joint ventures as at 31 December 2010 and the results of their operation for the year then ended were as follows (unaudited):

Group	Assets	Liabilities	Sales revenue	Net profit (loss)
Geoterma UAB	52 518	14 410	14 649	(1 416)
Nordic Energy Link AS	310 148	222 975	51 603	3 987
LitPol Link Sp.z.o.o	1 110	375	3 030	179
Enmašas UAB*	–	–	–	–

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

Movements of investments in associates and joint ventures during the periods ended 31 December 2011 and 31 December 2010 were as follows:

Group	2011	2010
Carrying amount at 1 January	27 610	25 837
Increase in investments	–	–
Reversal of impairment	–	1 020
Share of result of operations of associates and joint ventures	1 187	753
Carrying amount at 31 December	**28 797**	**27 610**

10 Amounts receivable after one year and other assets

	Group		Company	
	2011	2010	2011	2010
Amounts receivable:				
Mortgage loans granted	4 607	5 341	–	–
Grants and subsidies receivable	–	7 579	–	–
Amounts receivable for emission allowances lent	626	626	–	–
Less: impairment	(1 438)	(1 654)	–	–
Total amounts receivable	**3 795**	**11 892**	**–**	**–**
Other assets:				
Right to receive emission allowances in future	18 826	18 547	–	–
Less: impairment	(9 169)	–	–	–
Total other assets	**9 657**	**18 547**	**–**	**–**
Carrying amount	**13 452**	**30 439**	**–**	**–**

Mortgage loans represent loans granted to individuals for the term of 25 years. The mortgage loans are repayable in instalments till 2027. The mortgage loans are secured over residential housing property. In 2011, the current portion of these loans amounted to LTL 338 thousand (2010: LTL 350 thousand) and was accounted for under trade and other receivables (Note 13). These loans were issued at a fixed interest rate ranging from 0.1 to 1 per cent.

The Group's mortgage loans were discounted at interest rates with weighted average rate of 7.59 per cent in as at 31 December 2011 (31 December 2010: 7.55 per cent). Fair value of mortgage loans was estimated based on discounted cash flows using a discount rate of 4.66 per cent (31 December 2010: 4.8 per cent).

	Group		Company	
	2011	2010	2011	2010
Fair value of loans granted	4 009	5 102	–	–
Carrying amount of loans granted	3 507	4 037	–	–

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. Impairment of emission allowances was estimated with reference to the market prices of emission allowances as at 31 December 2011.

Movements in impairment account over the years ended 31 December 2011 and 2010 were as follows:

	Group		Company	
	2011	2010	2011	2010
At January 1	1 654	1 859	–	–
Impairment	9 169	–	–	–
Reversal of impairment	(216)	(205)	–	–
At December 31	**10 607**	**1 654**	**–**	**–**

11 Inventories

	Group		Company	
	2011	2010	2011	2010
Raw materials, consumables and spare parts	34 541	38 280	–	–
Electricity meters	3 013	3 378	–	–
Heavy fuel oil	118 396	118 942	–	–
Other	4 403	1 959	2	1
Total	**160 353**	**162 559**	**2**	**1**
Less: impairment	(16 206)	(13 579)	–	–
Carrying amount	**144 147**	**148 980**	**2**	**1**
Whereof: the value of heavy fuel oil pledged to AB DnB Nord bank	26 000	26 000	–	–

The acquisition cost of the Group's inventories carried at net realisable value as at 31 December 2011 amounted to LTL 34,513 thousand (31 December 2010: LTL 38,239 thousand).

Movements in impairment of inventories during the years ended 31 December 2011 and 31 December 2010 were as follows:

	Group		Company	
	2011	2010	2011	2010
At January 1	13 579	7 273	–	–
Impairment	5 816	9 720	–	–
Reversal of impairment	(3 189)	(3 414)	–	–
At December 31	**16 206**	**13 579**	**–**	**–**

The write-down of inventory to net realisable value was included within 'other expenses' in the statement of comprehensive income.

12 Trade receivables

	Group		Company	
	2011	2010	2011	2010
Receivables for electricity sold in Lithuania	256 932	263 837	–	–
Amounts receivable for electricity exported	604	149	–	–
Other trade receivables	25 279	22 186	1	32
Total	**282 815**	**286 172**	**1**	**32**
Less: impairment of trade receivables	(42 287)	(33 126)	–	
Carrying amount	**240 528**	**253 046**	**1**	**32**

Movements in impairment of trade receivables during the years ended 31 December 2011 and 31 December 2010 were as follows:

	Group		Company	
	2011	2010	2011	2010
At January 1	33 126	33 698	–	–
Impairment	13 527	5 524	–	–
Reversal of impairment	(4 366)	(6 096)	–	–
At December 31	**42 287**	**33 126**	**–**	**–**

The impairment of trade receivables was included within 'other expenses' in the statement of comprehensive income.

The ageing analysis of trade receivables that were not identified as doubtful receivables is as follows:

	Group		Company	
	2011	2010	2011	2010
Not past due	195 640	236 376	1	32
Past due up to 30 days	33 739	11 319	–	–
Past due from 30 to 60 days	2 528	3 141	–	–
Past due from 60 to 90 days	4 309	879	–	–
Past due from 90 to 120 days	368	1 331	–	–
Past due over 120 days	3 944	–	–	–
Carrying amount	**240 528**	**253 046**	**1**	**32**

The fair value of trade receivables as at 31 December 2011 and 2010 approximated their carrying amount.

13 Other amounts receivable

	Group		Company	
	2011	2010	2011	2010
Value added tax	3 895	15 278	151	162
Amounts receivable for property, plant and equipment	15	–	–	–
Accrued unbilled revenue from sale of electricity (related VAT incl.)	23 892	25 915	–	–
PSO service fees receivable to compensate difference in natural gas (Note 4)	96 030	–	–	–
Current portion of mortgage loans granted (Note 10)	338	350	–	–
Other amounts receivable	16 634	577	–	1
Total	140 804	42 120	151	163
Less: impairment of other amounts receivable	(1 915)	–	–	–
Carrying amount	**138 889**	**42 120**	**151**	**163**

The fair value of other amounts receivables as at 31 December 2011 and 2010 approximated their carrying amount.

14 Short-term investments, time deposits and other financial assets

Short-term investments and time deposits comprised as follows:

	Group		Company	
	2011	2010	2011	2010
Amounts receivable under repurchase transactions	–	3 000	–	3 000
Held-to-maturity financial assets	68 521	–	46 981	–
Time deposits	222 410	50 500	107 174	2 000
Interest receivable	916	137	916	65
Total	**291 847**	**53 637**	**155 071**	**5 065**
Other financial assets	61 096	–	–	–
Carrying amount	**352 943**	**53 637**	**155 071**	**5 065**

As at 31 December 2011, the weighted average annual interest rate on time deposits was 2.27% (31 December 2010: 1.74%) for the Group and 2.28% (31 December 2010: 1.4%) for the Company.

The Group's held-to-maturity financial assets comprised Lithuanian government bonds denominated in the euros and litas, the redemption date of which was set in 2012. As at 31 December 2011, the weighted average annual interest rate on held-to-maturity investments was 2.24%.

The Company's held-to-maturity financial assets comprised Lithuanian government bonds denominated in the litas, the redemption date of which was set in 2012. As at 31 December 2011, the weighted average annual interest rate on held-to-maturity investments was 2.22%. The carrying amounts of these investments approximate their fair values.

Based on repurchase contract signed in 2010, the Company acquired bonds of SEB Bankas AB and the bank assumed a commitment to repurchase these bonds by the established date. The weighted average annual interest rate payable on amounts receivable under repurchase contracts was 1.9% as at 31 December 2010.

Other financial assets comprise the balance of PSO service fees representing the difference between the collected and disbursed PSO service fees, which is held by the group company LITGRID AB in a separate bank account. The balance of PSO service fees amounted to LTL 61,096 thousand as at 31 December 2011.

Based on the Description of Administration of PSO Service Fees approved by the Commission, the balance of PSO service fees should be accounted for separately from other cash and cash equivalents of the Group and it may be used only for the disbursements of PSO service fees.

15 Cash and cash equivalents

	Group		Company	
	2011	2010	2011	2010
Cash at bank and in hand	100 289	174 705	2 279	1 091
Time deposits	14 266	149 083	2 866	33 000
Overnight deposits	47 389	19 212	–	–
Carrying amount	**161 944**	**343 000**	**5 145**	**34 091**

For the purpose of cash flow statement, cash and cash equivalents and bank overdraft comprised as follows:

	Group		Company	
	2011	2010	2011	2010
Cash and cash equivalents	161 944	343 000	5 145	34 091
Bank overdraft	(7 419)	(54 772)	–	–
Carrying amount	**154 525**	**288 228**	**5 145**	**34 091**

The fair value of cash and cash equivalents as at 31 December 2011 and 2010 approximated their carrying amount.

16 Share capital

On 30 April 2010, the Company's sole shareholder LEO LT AB (in liquidation) resolved to cover the Company's loss amounting to LTL 17,064,493 by way of capitalising a part of loan received from the shareholder.

On 30 April 2010, the Company's sole shareholder resolved to change the nominal value of shares whereby each ordinary share with nominal value LTL 100 was replaced with one hundred shares with nominal value of LTL 1 each.

On 30 April 2010, the Company's sole shareholder resolved to increase the authorised share capital by LTL 7,935,507 (from LTL 25,000,000 to LTL 32,935,507). The increase in share capital was made by capitalising a part of loan received from the shareholder. The increased share capital of the Company was registered on 31 May 2010.

Based on the Resolution of the sole shareholder dated 4 June 2010, the Company's share capital was increased through the issue of 4,008,749,745 ordinary registered shares with nominal value of LTL 1 each. Based on this Resolution, the Republic of Lithuania represented by the Lithuanian Ministry of Energy acquired 803,002,029 newly issued shares. The remaining 3,205,747,716 newly issued shares were acquired by the company's shareholder LEO LTAB (in liquidation). The Republic of Lithuania paid for the shares by in-kind contributions representing the shares of Lietuvos Elektrinė AB and other assets. LEO LT AB (in liquidation) paid for the shares by in-kind contributions representing the shares of Lietuvos Energija AB, Rytų Skirstomieji Tinklai AB and VST AB (see Note 9). The new share capital was registered on 17 June 2010.

Shareholders' contributions during 2010 are given in the table below:

	Ownership interest, %	Transaction value	Fair value	Difference
Contributions made by LEO LT AB (in liquidation):		3 205 747	3 205 747	–
Shares of Lietuvos Energija AB	93,70	1 463 010	1 463 010	–
Shares of Rytų Skirstomieji Tinklai AB	71,35	775 819	775 819	–
Shares of VST AB	98,21	966 918	966 918	–
Contributions made by the Republic of Lithuania:		803 002	686 901	116 101
Shares of Lietuvos Elektrinė AB	95,54	712 229	598 964	113 265
Non-current assets		90 773	87 937	2 836
Totalin-kind contributions:		**4 008 749**	**3 892 648**	**116 101**

The transaction values of in-kind contributions in shares were determined in accordance with Article 45.1.1.1 of the Lithuanian Law on Companies based on the average weighted market price of shares over the last 6 months. The values of in-kind contributions in non-current assets were determined by independent valuers as at 31 December 2009.

Since the Company subsequently sold the non-current assets and the shares ofLietuvos Elektrinė AB or used them to pay for the newly issued shares of subsidiaries, the fair values of these contributions were determined by independentvaluers on 30 June 2010. In the Company's opinion, the estimated fair values approximated the fair values on the date of contribution of assets, i.e. on 4 June 2010. The difference between the transaction value and the fair value of in-kind contributions in shares and assets was accounted directly in the Company's equity.

Based on the resolution of shareholders of Visagino Atominė Elektrinė UAB dated 31 January 2011, the Company's share capital was increased though additional issue of 25,478,380 ordinary registered shares with nominal value of LTL 1 each. Based on this resolution, the right to acquire the newly issued shares was granted to LEO LT AB (in liquidation). LEO LT AB paid for the newly issued shares by cash contribution. The Company's increased share capital was registered on 11 February 2011.

On 21 October 2011, LEO LT AB (in liquidation) transferred, whereas the Lithuanian Ministry of Energy accepted, the shares of Visagino Atominė Elektrinė UAB falling into the ownership of the Republic of Lithuanian as a sole shareholder of LEO LT AB, and belonging to LEO LT under the title of ownership.

As at 31 December 2011 and 31 December 2010, the Company's share capital equalled LTL 4,067,163,632 and LTL 4,041,685,252, respectively. The share capital as at 31 December 2011 and 2010 was divided into ordinary registered shares with nominal value of LTL 1 each. All the shares are fully paid.

The Company's shareholders' structure is as follows:

	31 December 2011		31 December 2010	
	Share capital	Ownership interest, %	Share capital	Ownership interest, %
LEO LT AB (in liquidation)	–	–	3 238 683	80,13
Republic of Lithuania represented by the Lithuanian Ministry of Energy	4 067 164	100,00	803 002	19,87
	4 067 164	**100,00**	**4 041 685**	**100,00**

17 Reserves

Legal reserve

The legal reserve is compulsory under the Lithuanian laws. The companies in Lithuania are required to make annual transfers of 5 per cent of net profit to the legal reserve until the reserve reaches 10 per cent of the authorised share capital. The legal reserve may not be used for payment of dividends and it is formed to cover the company's future losses only.

As at 31 December 2011, the Group's legal reserve amounted to LTL 124,567 thousand (31 December 2010: LTL 116,176 thousand). The Company did not establish the legal reserve.

Revaluation reserve

Revaluation reserve comprises increase in the value of property, plant and equipment on revaluation. Pursuant to the Lithuanian laws, revaluation reserve may be used to increase authorised share capital and it may not be used to reduce loss.

As at 31 December 2011, the Group's revaluation reserve amounted to LTL 1,145,301 thousand (31 December 2010: LTL 1,134,085 thousand). The Company had not such reserve.

Other reserves

Other reserves are formed based on the decision of shareholders and they can be redistribution upon appropriation of profit for the following year. As at 31 December 2011, the Group's other reserves amounted to LTL 1,645,170 thousand (31 December 2010: LTL 666,601 thousand). The Company had no other reserves.

Group	Reserve for share capital reduction	Reserve for investments	Reserve for bonuses and support	Restricted use reserves related to non-current assets	Other reserves	Total
Balance at 31 December 2009	**(61 482)**	**111 689**	**1 143**	**636 730**	**1**	**688 081**
Formation of reserves	–	–	864	–	–	864
Reserves utilised/reversed	–	–	(952)	–	–	(952)
Effect of the Group's restructuring	(701)	(2 792)	(454)	(17 445)	–	(21 392)
Balance at 31 December 2010	**(62 183)**	**108 897**	**601**	**619 285**	**1**	**666 601**
Formation of reserves	–	–	–	–	955 270	955 270
Reserves utilised/reversed	–	–	–	–	(236)	(236)
Effect of the Group's restructuring	873	3 484	(620)	19 671	127	23 535
Balance at 31 December 2011	**(61 310)**	**112 381**	**(19)**	**638 956**	**955 162**	**1645 170**

The reserve for share capital reduction due to the transfer of heavy fuel oil storage facilities is negative. It was formed in 1999 as a result of the transfer of heavy fuel oil storage facilities from Lietuvos Energija AB to VĮ VilniausMazutoSaugykla (although expected, the share capital has not been reduced by this amount until now).

The reserve for investments was formed to accumulate funds for the construction and development of non-current assets for Lietuvos Elektrinė AB. Decisions on utilisation of these funds are to be made by the Group's shareholders.

The restricted use reserve related to non-current assets was formed upon the first-time adoption of IFRS by Lietuvos Elektrinė AB and Lietuvos Energija AB on 1 January 2004. As a result of transition to IFRS, the equity of both companies increased and the reserve related to non-current assets was formed to restrict the distributions from that increase in equity.

18 Borrowings

	Group		Company	
	2011	2010	2011	2010
Non-current				
Bank borrowings	572 368	313 340	–	–
Current				
Current portion of long-term debts	494 107	720 328	–	–
Other borrowings	13 000	–	–	13 980
Bank overdraft (Note 15)	7 419	54 772	–	–
Total borrowings	**1086 894**	**1088 440**	**–**	**13 980**

Borrowings analysed by maturity groupings:

	Group		Company	
	2011	2010	2011	2010
Between 1 and 2 years	123 851	57 948	–	–
Between 2 and 5 years	175 283	221 856	–	–
Over 5 years	273 234	33 536	–	–
Total	**572 368**	**313 340**	**–**	**–**

The carrying amounts of borrowings are denominated in the following currencies:

	Group		Company	
	2011	2010	2011	2010
LTL	21 615	54 772	–	13 980
EUR	1 065 279	1 033 668	–	–
Total	**1 086 894**	**1 088 440**	**–**	**13 980**

As at 31 December 2011 and 2010, the fair value of borrowings approximated their carrying amount, except for Lietuvos Energija AB borrowings with the carrying amount of LTL 640,997 thousand and LTL534,992 thousand, respectively. The fair value of these borrowings as at 31 December 2011 equalled LTL 46,968 thousand, and as at 31 December 2010 the fair value exceeded the carrying amount by LTL 1,127 thousand.

The loan agreements contain certain financial and non-financial covenants that the individual Group companies have obliged to comply with. In the opinion of management, as at 31 December 2011 and 2010 the Group and the Company complied with all the covenants, except for those described below:

The Group did not comply with the covenant stipulated in the loan agreement in relation to cash inflows into bank account, however, official letters were received from the banks confirming the fulfilment of obligations as at 31 December 2011 and 31 December 2010. In view of this, non-current borrowings were not reclassified to current borrowings in full or in part.

Under the loan agreement, Lietuvos Energija AB was obliged to maintain credit coverage ratio (estimated as debt to EBITDA ratio) at a level not higher than 7. As at 31 December 2011, this ratio was exceeded by 1.6. In addition, under a number of loans agreements, Lietuvos Energija AB was obliged not to make any investments in other companies without a prior written consent by the majority of the banks. On 23 December 2011, Lietuvos Energija AB signed an Agreement for Purchase of Shares of Technologijų ir Inovacijų Centras UAB and it did not refer to the Banks for their consent in respect of this transactions, consequently, it breached the above-mentioned covenant.

Based on the provisions of the loan agreements, the banks have a right to require an early repayment of loans in full or in part in the event of breach of financial and non-financial covenants. As at 31 December 2011, the balance of non-current loans in respect of which the covenants were breached amounted to LTL 355,252 thousand and they were reclassified as current borrowings.

On 8 March 2012, Lietuvos Energija AB received a letter from the banks confirming that the banks will not exercise their contractual right to require an early repayment of loan in full or in part in 2012, the non-current balance of which amounted to LTL 74,194 thousand.

As at 31 December 2010, the Group's company did not comply with the financial covenants stipulated in loan agreements in terms of debt to EBITDA ratio and cash flows from operating activities. For this reason, the non-current portion of the loans amounting to LTL 409,146 thousand was classified as current borrowings.

The Group's management believes it is unlikely that the lenders will take measures in respect of the above-mentioned loans.

19 Finance lease liabilities

	2011		2010	
	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:				
Within the first year	331	319	532	511
Between the second and the fifth year	587	584	865	851
Minimum finance lease payments	**918**	**903**	**1 397**	**1 362**
Less: future finance charges	(15)	–	(35)	–
Present value of minimum finance lease payments	**903**	**903**	**1 362**	**1 362**

The finance lease liabilities are secured by the lessor's right into the lessee's assets acquired under finance lease.

The fair value of the finance lease liabilities approximated their carrying amount as at 31 December 2011 and 2010.

The Company did not have any finance lease liabilities.

20 Deferred income tax

Deferred income tax assets and deferred income tax liabilities were offset when there are legally enforceable grounds to set of current tax assets against current tax liabilities and when deferred income tax relates to the same fiscal authority. Movements in deferred income tax assets and liabilities during the reporting period were as follows:

Group	31 December 2009	Recognised through profit and loss	Recognised in other comprehensive income	31 December 2010	Recognised through profit and loss	Recognised in other comprehensive income	31 December 2011
Deferred income tax assets							
Revaluation of PP&E (impairment)	176 864	(9 510)	–	167 354	(11 462)	–	155 892
Difference in recognition of revenue from new customer connections	3 719	(146)	–	3 573	(586)	–	2 987
Deferred income	965	(965)	–	–	1 611	–	1 611
Accrued expenses	3 125	1 617	–	4 742	(1 762)	63	3 043
Impairment of assets	21 300	(2 549)	–	18 751	317	(23)	19 045
Tax losses not utilised	3 327	(951)	–	2 376	6 094	–	8 470
Other	(128)	103	–	(25)	3 286	–	3 261
Deferred income tax assets before write-down to recoverable value	**209 172**	**(12 401)**	**–**	**196 771**	**(2 502)**	**40**	**194 309**
Less: write-down to recoverable value	–	–	–	–	–	–	–
Deferred income tax assets, net	**209 172**	**(12 401)**	**–**	**196 771**	**(2 502)**	**40**	**194 309**
Deferred income tax liabilities							
Revaluation of PP&E (impairment)	983 236	(73 035)	4 250	914 451	(67 509)	910	847 852
Differences in depreciation rates	17 066	2 222	–	19 288	337	434	20 059
Tax relief on acquisition of PP&E	36 155	(5 504)	–	30 651	(359)	–	30 292
Increase in value of assets	–	4	–	4	–	–	4
Accrued expenses	3 501	(5 193)	–	(1 692)	(122)	–	(1 814)
Difference in recognition of revenue from new customer connections	13 310	(543)	–	12 767	(1 347)	–	11 420
Other	17 903	(4 344)	–	13 559	(1 540)	(2)	12 017
Deferred income tax liabilities, net	**1 071 171**	**(86 393)**	**4 250**	**989 028**	**(70 540)**	**1 342**	**919 830**
Deferred income tax, net	**(861 999)**	**73 992**	**(4 250)**	**(792 257)**	**68 038**	**(1 302)**	**(725 521)**

Company	31 December 2009	Recognised through profit and loss	Recognised in other comprehensive income	31 December 2010	Recognised through profit and loss	Recognised in other comprehensive income	31 December 2011
Deferred income tax assets							
Accrued expenses	304	(263)	–	41	22	–	63
Tax losses not utilised	2 700	(1 141)	–	1 559	4 884	–	6 443
Deferred income tax assets before write-down to recoverable value	**3 004**	**(1 404)**	**–**	**1 600**	**4 906**	**–**	**6 506**
Less: write-down to recoverable value	–	–	–	–	–	–	–
Deferred income tax assets, net	**3 004**	**(1 404)**	**–**	**1 600**	**4 906**	**–**	**6 506**

21 Grants and subsidies

The balance of grants comprises grants to finance acquisition of assets, funds received from the International Fund for Support of Decommissioning of Ignalina Nuclear Power Plant, from the EU structural funds, and property, plant and equipment and intangible assets received at no consideration from the Government of the Republic of Lithuania. Movements in grants in 2011 and 2010 were as follows:

Group	Asset-related grants	Asset-related grants (projects for renovation, improvement of environmental and security standards)	Grants for emission allowances	Total
Balance at 31 December 2009	97 828	717 322	–	815 150
Depreciation of PP&E	(4 544)	(1 074)	–	(5 618)
Grants received	4 224	128 786	22 946	155 956
Emission allowances utilised	–	–	(22 946)	(22 946)
Balance at 31 December 2010	**97 508**	**845 034**	**–**	**942 542**
Depreciation of PP&E	(4 939)	(9 628)	–	(14 567)
Grants received	217 051	78 180	26 701	321 932
Emission allowances utilised	–	–	(26 701)	(26 701)
Grants reversed	(8 269)	–	–	(8 269)
Balance at 31 December 2011	**301 351**	**913 586**	**–**	**1 214 937**

The entire amount of grant for emission allowances was received by Lietuvos Energija AB.

The total balance of asset-related grants mostly included amounts received from the EU Structural Funds (LTL 49,887 thousand), PSO service fees received to finance NordBalt project for the construction of interconnection between Lithuanian and Swedish electricity transmission systems (LTL 92,030 thousand), and PSO service fees received to finance the construction of Unit No. 9 of the Lithuanian Power Plant.

The entire amount of asset-related grants (projects for renovations, improvement of environmental and security standards) of LTL 78,180 thousand (2010: LTL 128,786 thousand) was received byLietuvos Energija AB from the International Fund for Support of Decommissioning of Ignalina Nuclear Power Plant.

Amortisation of grants is included in depreciation and amortisation expenses in the statement of comprehensive income and it reduces the depreciation expenses of the related property, plant and equipment.

22 Deferred income

	Group		Company	
	2011	2010	2011	2010
At 1 January	240 236	249 876	–	–
Grants received during the year	–	–	–	–
Grants utilised during the year	(9 759)	(9 640)		
Reclassified to other current amounts payable and liabilities	(7 282)	–	–	–
At 31 December	**223 195**	**240 236**	**–**	**–**

Fees received after 1 July 2009 for the connection of new customers to the grid and for the dislocation of electricity network facilities on request of customers are recognised as income during the period in which the works are carried out. Before 1 July 2009 deferred income was recognised over the average useful life of property, plant and equipment concerned (see notes 2.22 and 4).

23 Provisions

	Group		Company	
	2011	2010 (restated)	2011	2010
Non-current	4 286	22 161	–	–
Current	63 039	68 964	–	–
Total	**67 325**	**91 125**	**–**	**–**

Group	Provisions for litigations and claims	Provisions for emissions*	Provisions for employee benefits	Total
At 1 January 2010	–	26 909	9 007	35 916
Increase over the period/ Provisions for emissions	221	54 212	2 544	56 977
Utilised over the period/ Emission allowances utilised	(10)	(26 909)	(3 826)	(30 745)
Provisions for onerous contract (Note 5)	–	28 977	–	28 977
At 31 December 2010	**211**	**83 189**	**7 725**	**91 125**
Increase over the period/ Provisions for emissions	468	16 268	442	17 178
Utilised over the period/ Emission allowances utilised	–	(54 212)	(3 452)	(57 664)
Provisions for onerous contract	–	16 686	–	16 686
At 31 December 2011	**679**	**61 931**	**4 715**	**67 325**

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

Some Group companies pay employee benefits and other extra pays depending on the term of service of employees. In addition, employee benefits for the amount of 2 monthly salaries are paid to employees upon redundancy or termination of employment at retirement age as stipulated in the Lithuanian laws.

Some Group companies pay retirement benefits upon termination of employment contracts at retirement age higher than those defined in the collective employment contract. Actuarial calculations are made to ensure the accuracy of estimates of these liabilities to employees. The liabilities are recognised at a present value discounted using the market interest rate.

24 Other non-current amounts payable and liabilities

	Group		Company	
	2011	2010	2011	2010
Advance PSO service fees received (Note 5)	39 313	49 607	–	–
Non-current trade payables	4 878	5 273		
Other	3 103	234	–	–
Carrying amount	**47 294**	**55 114**	**–**	**–**

The current portion of advance PSO service fees received was recognised within advance amounts received in 2011.

25 Amounts payable

	Group		Company	
	2011	2010	2011	2010
Amounts payable for electricity	121 738	97 566	–	–
Amounts payable for contractor works and services	38 976	11 151	–	–
Amounts payable for gas	21 763	29 338	–	–
Other amounts payable	54 544	37 127	8 780	1 822
Carrying amount	**237 021**	**175 182**	**8 780**	**1 822**

26 Other current amounts payable and liabilities

	Group		Company	
	2011	2010	2011	2010
Employment-related liabilities	12 197	16 725	789	114
Accrued expenses and deferred income for electricity	9 876	11 598	–	–
Difference between PSO service fees received and disbursed	64 677	11 507		
Amounts payable for property, plant and equipment	86 482	152 793	–	–
Taxes other than income tax	14 216	16 553	–	–
Accrued expenses and deferred income	51 285	30 243	–	1 429
Derivative financial instruments	1 511	1 229	–	–
Other amounts payable and liabilities	15 049	21 480	425	86
Carrying amount	**255 293**	**262 128**	**1 214**	**1 629**

To manage its interest rate risk, the Group uses derivative financial instruments. For this purpose, the group has entered into interest rate swap contracts to convert variable interest rate into fixed interest rate.

As at 31 December 2011 and 2010, the nominal value of swap contracts amounted to LTL 69,056 thousand.

27 Sales revenue

	Group		Company	
	2011	2010	2011	2010
Revenue from sale of electricity to end users	2501 913	2826 741	–	–
Electricity exports	64 333	56 456	–	–
Other sales revenue	44 961	27 489	–	–
Carrying amount	**2611 207**	**2910 686**	**–**	**–**

28 Other operating income

	Group		Company	
	2011	2010	2011	2010
Repair services	15 850	18 299	–	–
IT and communications services	25 641	25 162	–	–
Rental income	2 256	5 304	10	966
Other income	18 192	6 937	–	–
Carrying amount	**61 939**	**55 702**	**10**	**966**

29 Other expenses

	Group		Company	
	2011	2010	2011	2010
Utility services	7 084	7 879	76	54
Telecommunications and IT services	14 490	15 349	394	556
Business trips	2 150	1 798	565	340
Consultation services	31 250	19 048	26 951	8 466
Scientific and research works	65	1 274	–	–
HR development	1 521	1 191	81	76
Expenses of low-value inventories	20 844	25 073	6	6
Advertising	2 261	3 129	391	405
Transport	13 219	9 391	408	296
Services to customers	8 564	7 722	–	–
Taxes	22 091	20 699	124	124
Provisions for emission allowances utilised	(10 433)	31 266	–	–
Expenses of provisions for onerous contract	16 686	28 977	–	–
Other expenses	14 530	36 508	1 153	733
Carrying amount	**144 322**	**209 304**	**30 149**	**11 056**

30 Finance income

	Group		Company	
	2011	2010	2011	2010
Interest income	7 538	9 186	2 393	658
Dividends received	–	–	137 227	–
Foreign exchange positive effect	16	3	–	–
Other finance income	1 780	3 103	–	–
Carrying amount	**9 334**	**12 292**	**139 620**	**658**

31 Finance costs

	Group		Company	
	2011	2010	2011	2010
Interest expenses	13 319	12 597	135	420
Foreign exchange negative effect	366	5 127	–	–
Share of result of associates and joint ventures	(1 187)	(614)	–	–
Other finance costs	2 586	291	2	4
Carrying amount	**15 084**	**17 401**	**137**	**424**

32 Income tax expenses

Income tax expenses comprise current income tax and deferred income tax.

Income tax at a rate of 15% was payable on profit for 2011 (the same as in 2010) in accordance with the Lithuanian regulatory legislation on taxation.

	Group		Company	
	2011	2010	2011	2010
Current income tax	46 873	63 735	–	–
Deferred income tax	(68 038)	(73 992)	(4 906)	1 404
Income tax expenses (income) recognised in profit and loss	**(21 165)**	**(10 257)**	**(4 906)**	**1 404**

Income tax calculated on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the income tax rate applicable to the Company:

	Group		Company	
	2011	2010	2011	2010
Profit before tax	(132 646)	(49 162)	103 441	(14 561)
Income tax at a rate of 15%	(19 897)	(7 374)	15 516	(2 184)
Effect of non-taxable income and non-deductible expenses	(3 408)	7 895	(20 422)	3 588
Change in impairment of deferred income tax assets	2 133	–	–	–
Adjustments for the previous year	7	(10 778)	–	–
Income tax expenses (income)	**(21 165)**	**(10 257)**	**(4 906)**	**1 404**

33 Contingent liabilities and off-balance sheet commitments

Litigations

As of today,LITGRID AB acts as a claimant in three civil cases, two of which are related tothe establishment of servitudes by court required for the construction and maintenance of 330 kV electricity transmission line Klaipėda – Telšiai(counterclaim amount of plaintiffs is LTL 1,380 thousand), and one case related to award of debt and interest in amount of LTL 2,292 thousand for PSO services.

As of today, LITGRID ABacts as a plaintiff in two civil cases. The amount claimed by claimants is LTL 387 thousand.

As of today, LITGRID ABacts as a third interested party in 14 administrative cases, 12 of which are related to the orders of the head officers of territorial units of the National Land Service under the Ministry of Agriculture establishing servitudes for the construction and maintenance of 330 kV electricity transmission line Klaipėda – Telšiai, that were disputed by the land owners.

In view of the projects conducted by LITGRID AB, the construction of new electricity transmission lines will be started in 2012 over 1,000 land plots in respect of which the servitudes will be established. It is anticipated that about 70 to 80 new cases will be initiated with land owners who disagree with the establishment of servitude. The Company would acts as a third interest party in these cases, whereof approx. 25 cases are anticipated as relating to claims against the Company as a plaintiff in excess of LTL 100 thousand.

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

KaunoTermofikacinėElektrinė UAB filed a claim in relation to the amount of PSO service fees paid for 2008. In the opinion of Lietuvos Energija AB, the amount of PSO servicefees for December 2008 due to unsupplied volume of production subject to compensation should be reduced from LTL 4,005 thousand to LTL 3,457 thousand. KaunoTermofikacinėElektrinė UAB objected such position of Lietuvos Energija AB. The claim amount is LTL 653 thousand. On 26 October 2010 Vilnius County Court passed the ruling which satisfied the claim in favour ofKaunoTermofikacinėElektrinė UAB against Lietuvos Energija AB in part and awarded the repayment of debt of LTL 647 thousand and interest of LTL 6 thousand, and annual interest of 6 per cent on the amount awarded from 20 March 2009 untilthe date of full fulfilment of the court's ruling. Lietuvos Energija AB filed an appeal against this decision and the date of the court's sitting had not been announced yet. In view of the circumstances of the dispute, available evidence, arguments of Lietuvos Energija AB and explanations concerning the claims presented by the other party to the dispute, the dispute is likely to be settled either in favour of or not in favour of Lietuvos Energija AB.

As at 31 December 2008, Lietuvos Energija AB disputed LTL 884 thousand amount payable to VilniausEnergija UAB related to the electricity supplied by this entity under the public service obligation (PSO) scheme, which was not accounted for in the statement of financial position. The obligations to this supplier was recalculated by Lietuvos Energija AB based on the actual volumes of the electricity supplied in 2008 and the volumes of sponsored production levels as set by the Ministry of the Economy of the Republic of Lithuania. The supplier did not agree with the recalculation made by the company and claimed the payment of the invoiced amounts for the PSO energy supplied. As at 31 December 2009, the claimed amount was LTL 1,049 thousand. On 20 February 2010, VilniausEnergija UAB filed a revised claim for the total amount of LTL 1,494 thousand specifying that Lietuvos Energija AB did not pay for the PSO energy supplied in 2009 as well. On 29 June 2010, Vilnius County Court passed the ruling rejecting the claim of VilniausEnergija UAB in its entirety. On 28 July 2010, VilniausEnergija UAB filed a claim in appeal to Vilnius County Court requesting that the decision of Vilnius County Court is annulled and a new decision is passed, namely, that the claim of VilniausEnergija UAB is satisfied in full. The Lithuanian Court of Appeals investigated the dispute in March 2011 and remained the ruling of Vilnius County Court unchanged.

Guarantees granted and received

Under the guarantee agreements signed in 2005, Lietuvos Energija ABguaranteed the fulfilment of 25 per cent of liabilities by Nordic Energy Link AS to Nordic Investment Bank (LTL 45,750 thousand) and to SEB EestiUhispank AB (LTL 26,759 thousand). The guarantees will expire upon full repayment of the loans by the associate to the respective banks, i.e. by 15 March 2014 and 15 September 2014, respectively. The Group accounted for these guarantees at fair value. The carrying amount of the guarantee obligations amounted to LTL 472 thousand as at 31 December 2011 (31 December 2010: LTL 718 thousand). The Group did not account for any additional provisions related to these guarantees, since management expects that the associate will fulfil its liabilities to the banks.

Buyout of electricity facilities

According to Order No 4-450 of 3 December 2003 of the Lithuanian Minister of Economy, as amended by Order No 4-72 of 15 February 2005, LESTO AB conducted the buyout from individuals and companies electricity distribution equipment under common use with LESTO AB. LESTO AB was able to buy out such equipment in one of the following ways: either by transferring its newly issued shares to the owners of the equipment, the issue price of which would be paid by in-kind contributions (i.e. electricity equipment under common use), or by signing agreements on sale-purchase of electricity equipment under common use (to be settled in cash).

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

According to Resolution No. 1281 of 5 December 2007 of the Government of the Republic of Lithuania, the following deadlines for the submission of documents by homestead cooperatives were established: applications to energy companies with the requests to buyout equipment had to be submitted by 1 July 2009. In 2011, LESTO AB, a company formed as a result of merger of RST and VST, continued the simplified procedure of buyout of electricity objects (electricity networks) installed for common use using the funds of homestead owners in line with the deadlines stipulated in Resolution No. 1257 of 31 August 2010 of the Lithuanian Government *On the establishment of deadlines for the buyout from cooperatives the electricity transmission and distribution lines, transformer substations, electric facilities and other equipment designated for the transmission and distribution of electricity and installed in the territory of homestead owners using the funds of such homestead owners*, i.e. by 1 July 2011.

In 2011, LESTO AB continued the simplified procedure of buyout of electricity objects (electricity networks) installed for common use using the funds of homestead owners, if the requests for buyout were submitted before 1 July 2011. During the year 2011, 117 electricity networks of common use for the value of LTL 1 852 million were bought out. Since the beginning of the buyout until 31 December 2011, 882 electricity networks of common use of homestead cooperatives for the value of LTL 10,410 million were bought out.

34 Transactions with related parties

As at 31 December 2011, the parent company was the Republic of Lithuania represented by the Lithuanian Ministry of Energy, whereas as at 31 December 2010 the parent company was LEO LT AB (in liquidation) and the ultimate parent company was the Republic of Lithuania. For the purpose of disclosure of related parties, the Republic of Lithuania does not include central and local government authorities.The disclosures comprise transactions and balances of these transactions with the parent company, subsidiaries, associates and management.

The following transactions were conducted with related parties:

The Group's related-party transactions in 2011 and balances arising from these transactions as at 31 December 2011 were as follows:

Related parties	Amounts payable	Amounts receivable	Sales	Purchases
The Group's associates and joint ventures	173	–	–	9 052
Total	**173**	**–**	**–**	**9 052**

In 2011, dividends declared by the Group companies were as follows:

Dividends received by / Dividends declared by	Visagino Atominė Elektrinė UAB	Non-controlling interest	Total
LESTO AB	50 402	10 596	60 998
Lietuvos Energija AB	86 826	2 223	89 049
Total	**137 228**	**12 819**	**150 047**

LESTO AB paid out dividends amounting to LTL 36,421 thousand to Visagino Atominė Elektrinė UAB in cash, and amount of LTL 13,980 thousand was offset against the loan.

The Group's related-party transactions in 2010 and balances arising from these transactions as at 31 December 2010 were as follows:

Related parties	Amounts payable	Amounts receivable	Sales	Purchases
LEO LT AB (in liquidation)	–	–	211	102
The Group's associates and joint ventures	–	–	1 844	10 943
Total	**–**	**–**	**2 055**	**11 045**

In 2010, dividends declared by the Group companies were as follows:

Dividends received by / Dividends declared by	LEO LT AB (in liquidation)	Republic of Lithuania	Non-controlling interest	Total
Lietuvos Energija AB	45 225	–	3 040	48 265
VST AB	7 669	–	139	7 808
Rytų Skirstomieji Tinklai AB	69 999	–	28 112	98 111
Lietuvos Elektrinė AB	–	9 755	454	10 209
Total	**122 893**	**9 755**	**31 745**	**164 393**

Dividends for LEO LT AB (in liquidation) were offset in part against the loans, and the remaining part was paid out in cash.

The Company's related-party transactions in 2011 and balances arising from these transactions as at 31 December 2011 were as follows:

Related parties	Amounts payable	Amounts receivable	Sales	Purchases
Lietuvos Energija AB	–	–	59	–
LESTO AB	–	1	10	151
Technologijų ir Inovacijų Centras UAB	(70)	–	–	388
NT Valdos UAB	52	–	–	440
VšĮRespublikinisEnergetikųMokymoCentras	–	–	–	5
Total	**(18)**	**1**	**69**	**984**

The Company's related-party transactions in 2010 and balances arising from these transactions as at 31 December 2010 were as follows:

Related parties	Financial debts	Amounts payable	Amounts receivable	Sales	Purchases
Lietuvos Energija AB	–	24	28	947	783
VST AB	13 980	–	4	19	157
Rytų Skirstomieji Tinklai AB	–	–	–	–	4
Lietuvos Elektrinė AB	–	–	–	–	1
Technologijų ir Inovacijų Centras UAB	–	50	–	–	104
InterLinks UAB	–	–	–	–	43
Tetas UAB	–	–	–	–	1
Elektros Tinklo Paslaugos UAB	–	–	–	–	2
NT Valdos UAB	–	86	–	–	86
Total	**13 980**	**160**	**32**	**966**	**1 181**

Translations related to the new issue of the Company's shares are disclosed in Note 16.

Non-current assets transferred in 2010 in exchange for the Company's shares (amounting to LTL 87,937 thousand) was used as in-kind contribution to the subsidiary Lietuvos Energija AB for the newly issued shares (LTL 57,304 thousand, Note 16) and sold to subsidiaries (LTL 29,249 thousand was paid in cash and the remaining amount was covered by in-kind contribution).

Payments to management:

	Group		Company	
	2011	2010	2011	2010
Salaries and other short-term benefits to management:	11 236	9 660	960	483
Whereof: termination benefits	577	586	–	–
Number of management staff	72	75	4	3

Management in the table above include heads of administrations and their deputies, and chief accountants.

35 Events subsequent to the end of the reporting period

Ratification of the concessionagreement

Following a successful accomplishment of negotiations, on 30 March 2012 the Lithuanian government initialled a concession agreement on building a nuclear power plant in Visaginas. The concession agreement stipulates the key principles for the development of Visaginas nuclear power plant project, and defines the rights and obligations of the host country and the investor. The agreement is a finalisation of the formal selection of Hitachi investment and Hitachi-GE technology, which contains the agreed schedule for the implementation of Visaginas nuclear power plant project. The initialled concession agreement will be subject to further consideration by the Government andsubmitted to the Seimas for approval. Upon the provision of concession, the preparatory phase for the construction works will be started during which designing,licensing and preparation of the building site will be carried out as soon as the strategic investor and other investors make their investments in the project.

Unbundling of LITGRID AB

On 30 March 2012, Lithuanian electricity transmission system operator LITGRID AB presented to the National Control Commission for Prices and Energy (NCCPE) a detailed action plan for the unbundling of the company from the vertically-integrated company group. The plan provides for that the activities of LITGRID AB will be separated from the vertically-integrated group of Visagino Atominė Elektrinė UAB, which currently holds the controlling interest in LITGRID AB.

All of the European Union Member States are required to separate electricity transmission activities from electricity production, supply and distribution activities. The corresponding set of provisions was transposed into the national legislative base of Lithuania following the approval of the new Law on Electricity, which came into effect on 7 February 2012.