

LIETUVOS ENERGIJA AB

**CONSOLIDATED AND COMPANY'S
FINANCIAL STATEMENTS FOR THE YEAR 2010**

Prepared in accordance with the International financial
accounting standards, applicable in European Union
(unaudited)



AKCINĖ BENDROVĖ LIETUVOS ENERGIJA

18 March 2011 Nr. SD-649

CONFIRMATION OF RESPONSIBLE PERSONS

Referring to the provisions of the Article 21 of the Law on Securities of the Republic of Lithuania and the Rules for the Drawing up and Submission of the Periodic and Additional Information of the Securities Commission of the Republic of Lithuania, we, the undersigned Dalius Misiūnas, CEO of AB „Lietuvos energija“, Vytenis Kudinskas, Director of Finance and Administration Department of AB „Lietuvos energija“ and Giedruolė Guobienė, Chief Financier of AB „Lietuvos Energija“, hereby confirm that, to the best of our knowledge, the consolidated financial statements for the period ended 31 December 2010 are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, give a true and fair view of the AB „Lietuvos energija“ and consolidated group assets, liabilities, financial position and profit for the relevant period.

Dalius Misiūnas

CEO

Vytenis Kudinskas

Director of Finance and Administration Department

Giedruolė Guobienė

Chief Financier

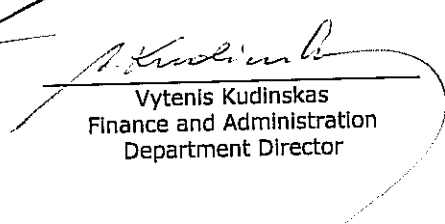
TABLE OF CONTENTS

	PAGE
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF COMPREHENSIVE INCOME	5 - 6
STATEMENTS OF CHANGES IN EQUITY	7 - 8
STATEMENTS OF CASH FLOWS	9
NOTES TO THE FINANCIAL STATEMENTS	10 - 29

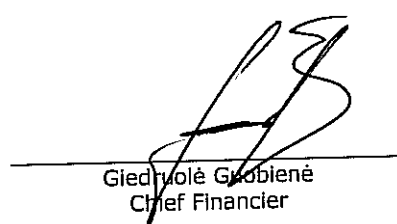
The financial statements were approved by the General Director, Finance and Administration Department Director and Chief Financier on 18 March 2011.



Dalius Misiūnas
General Director



Vytenis Kudinskas
Finance and Administration
Department Director



Giedrė Gėbienė
Chief Financier

STATEMENTS OF FINANCIAL POSITION
FOR THE PERIOD ENDED 31 DECEMBER 2010
All amounts in LTL thousand, unless otherwise stated

	Note	Group as at 31 December 2010	Company as at 31 December 2010	Group as at 31 December 2009	Company as at 31 December 2009
ASSETS					
Non-current assets:					
Intangible assets		57,032	-	2,455	2,360
Property, plant and equipment		2,955,123	583,042	2,811,945	2,779,451
Prepayments for property, plant, equipment		43,737	175	9,648	9,648
Investment property		1,852	1,852	17,260	37,031
Investments in subsidiaries		-	622,857	-	19,564
Investments in associates and joint ventures		162,087	160,836	25,837	24,853
Accounts receivable		1,171	415	510	510
Other financial assets		884	-	127	-
Total non-current assets		3,221,886	1,369,177	2,867,782	2,873,417
Current assets:					
Inventories		126,883	739	3,819	3,245
Prepayments		13,108	11,300	8,491	8,412
Trade receivables		179,061	97,972	170,342	164,157
Other accounts receivable		20,941	11,866	77,568	78,014
Income tax paid in advance		6,978	8,383	-	-
Other financial assets		243	-	-	-
Term deposits		-	-	17,160	17,000
Cash and cash equivalents		86,925	69,507	54,167	51,347
		434,139	199,767	331,547	322,175
Non-current assets classified as held for sale		4,166	1,543	3,205	-
Total current assets		438,305	201,310	334,752	322,175
TOTAL ASSETS		3,660,191	1,570,487	3,202,534	3,195,592
EQUITY AND LIABILITIES					
Capital and reserves:					
Share capital		489,283	489,283	689,515	689,515
Share premium		295,767	295,767	3	3
Revaluation reserve		6,590	6,604	346,170	343,404
Legal reserve		34,629	21,287	68,995	68,952
Other reserves		650,182	(63,777)	(63,777)	(63,777)
Retained earnings (deficit)		314,147	693,434	1,614,958	1,621,740
Equity attributable to the shareholders of the parent company		1,790,598	1,442,598	2,655,864	2,659,837
Minority interest		89,706	-	-	-
Non-current liabilities:					
Borrowings		503,164	-	-	-
Finance lease liabilities		851	-	1,565	-
Grants		872,957	27,522	71,420	71,393
Deferred income		-	-	16,173	16,173
Other non-current accounts payable and liabilities		6,251	6,228	10,954	10,954
Deferred income tax liabilities		131,401	21,980	235,557	233,334
Total non-current liabilities		1,514,624	55,730	335,669	331,854
Current liabilities:					
Borrowings		45,362	-	14,200	13,811
Finance lease liabilities		511	-	532	-
Trade payables		138,274	58,722	157,124	157,406
Advance amounts received		3,882	487	2,285	1,061
Income tax payable		-	-	16,505	16,458
Provisions		54,212	-	-	-
Other accounts payable and liabilities		23,021	12,950	20,355	15,165
Total current liabilities		265,262	72,159	211,001	203,901
Total liabilities		1,779,886	127,889	546,670	535,755
TOTAL EQUITY AND LIABILITIES		3,660,191	1,570,487	3,202,534	3,195,592

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2010
 All amounts in LTL thousand, unless otherwise stated

	Note	Group 2010	Company 2010	Group 2009	Company 2009
Revenue					
Sales revenue		1,058,128	981,930	1,520,489	265,955
Other operating income		14,875	674	48,251	25,952
		1,073,003	982,604	1,568,740	291,907
Operating expenses					
Purchase of electricity or related services		(851,412)	(830,277)	(1,050,882)	(181,058)
Gas expenses		(125,325)	-	-	-
Purchase of capacity reserve		-	-	(116,274)	-
Transit expenses		-	-	(3,240)	-
Depreciation and amortisation		(34,766)	(23,174)	(178,790)	(10,859)
Wages and related expenses		(35,232)	(16,566)	(64,400)	(3,994)
Repair and maintenance expenses		(7,304)	(2,765)	(12,323)	(831)
Decrease in inventories		(8,992)	-	-	-
Loss on revaluation of property, plant and equipment		-	-	(81,160)	(5,029)
Other expenses		(38,177)	(16,019)	(44,468)	1,073
Total operating expenses		(1,101,208)	(888,801)	(1,551,537)	(200,698)
OPERATING PROFIT (LOSS)		(28,205)	93,803	17,203	91,209
Finance income		8,895	8,011	9,478	9,479
Finance (costs):					
(Increase) decrease in value of investments, share of results of activities of associates and joint ventures		-	-	138	(214)
Other finance (costs)		(11,520)	(8,801)	(1,939)	(1,487)
		(2,625)	(790)	7,677	7,778
PROFIT (LOSS) BEFORE INCOME TAX		(30,830)	93,013	24,880	98,987
Current year income tax expense		(18,800)	(11,542)	(44,644)	(44,564)
Deferred income tax income (expense)		24,153	20,122	40,347	40,794
		5,353			
			8,580	(4,297)	(3,770)
PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		(25,477)	101,593	20,583	95,217
DISCONTINUED OPERATIONS					
Profit (loss) for the period from discontinued operations, net of income tax		120,320	(55,630)	-	(66,223)
PROFIT (LOSS) FOR THE PERIOD		94,843	45,963	20,583	28,994

(Continued to the next page)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2010
All amounts in LTL thousand, unless otherwise stated

	Note	Group 2010	Company 2010	Group 2009	Company 2009
Other comprehensive income					
Loss on revaluation of property, plant and equipment		28,335	28,335	(155,774)	(151,709)
Revaluation of investment property		-	-	(6,362)	(6,362)
Other comprehensive income		-	-	(765)	-
Deferred income tax related to loss on revaluation of property, plant and equipment and of investment property		(4,250)	(4,250)	52,637	51,797
Deferred income tax related to deemed costs		-	-	55,818	55,818
Other comprehensive income, net of deferred income tax		24,085	24,085	(54,476)	(50,456)
TOTAL COMPREHENSIVE INCOME		118,928	70,048	(33,863)	(21,462)
PROFIT (LOSS) FOR THE PERIOD					
ATTRIBUTABLE TO:					
Owners of the Company		94,869	45,963	20,583	28,994
Minority interest		(26)	-	-	-
		94,843	45,963	20,583	28,994
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:					
Owners of the Company		118,928	70,048	(33,863)	(21,462)
Minority interest		-	-	-	-
		118,928	70,048	(33,863)	(21,462)
Basic and diluted earnings (deficit) per share (in LTL)		0.14		0.03	

LIETUVOS ENERGIJA AB
Company code 220551550, Elektrinės g. 21, LT-26108 Elektrėnai

**STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

Group	Note	Equity attributable to the shareholders of the Company							Minority interest	Total equity	
		Share capital	Share premium	Revaluation reserve	Legal reserve	Other reserves	Retained earnings (deficit)	Foreign currency translation reserve			Total
Balance at 31 December 2008		689,515	3	492,723	70,794	1,454,530	(17,820)	(18)	2,689,727	1	2,689,728
Depreciation of revaluation reserve	16	-	-	(37,054)	-	-	37,054	-	-	-	-
Other transfers to/from the reserves		-	-	-	(1,799)	(1,518,307)	1,520,106	-	-	-	-
Comprehensive income		-	-	(109,499)	-	-	75,618	18	(33,863)	-	(33,863)
Balance at 31 December 2009		689,515	3	346,170	68,995	(63,777)	1,614,958	-	2,655,867	1	2,655,868
Balance at 31 December 2009		689,515	3	346,170	68,995	(63,777)	1,614,958	-	2,655,867	1	2,655,868
Proceeds from share capital issued		304,099	325,386	-	-	-	-	-	629,485	-	629,485
Decrease in capital because of LTGRID Turtas AB separation		(504,331)	(29,622)	(299,582)	(47,665)	-	(987,397)	-	(1,868,597)	-	(1,868,597)
AB „Lietuvos elektrinė“ acquisition		-	-	-	13,342	713,316	(389,439)	-	337,219	89,706	426,925
Depreciation of revaluation reserve		-	-	(24,727)	-	-	24,727	-	-	-	-
Revaluation of assets, contributed to the share capital of subsidiaries and associates		-	-	24,085	-	-	(24,085)	-	-	-	-
Shareholders Contribution to subsidiaries and associates		-	-	(35,701)	-	-	35,701	-	-	-	-
Dividends paid		-	-	-	-	-	(58,476)	-	(58,476)	-	(58,476)
Other transfers to/from the reserves		-	-	(2,780)	(43)	643	-	-	(2,180)	-	(2,180)
Adjustment to previous year		-	-	(875)	-	-	875	-	-	-	-
Comprehensive income		-	-	-	-	-	97,283	-	97,283	-	97,283
Balance at 31 December 2010		489,283	295,767	6,590	34,629	650,182	314,147	-	1,790,597	89,706	1,880,303

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LIETUVOS ENERGIJA AB
Company code 220551550, Elektrinės g. 21, LT-26108 Elektrėnai

**STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

Company	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Other reserves	Retained earnings (deficit)	Total equity
Balance at 31 December 2008		689,515	3	483,230	68,952	1,451,571	(11,972)	2,681,299
Depreciation of revaluation reserve		-	-	(33,552)	-	-	33,552	-
Other transfers to/from the reserves		-	-	(106,274)	-	(1,515,348)	1,515,348	-
Comprehensive income		-	-	-	-	-	84,812	(21,462)
Balance at 31 December 2009		689,515	3	343,404	68,952	(63,777)	1,621,740	2,659,836
Balance at 31 December 2009		689,515	3	343,404	68,952	(63,777)	1,621,740	2,659,836
Proceeds from share capital issued		304,099	325,386	-	-	-	-	629,485
Decrease in capital because of LITGRID Turtas AB separation		(504,331)	(29,622)	(299,582)	(47,665)	-	(987,397)	(1,868,597)
Depreciation of revaluation reserve		-	-	(24,727)	-	-	24,727	-
Revaluation of assets, contributed to the share capital of subsidiaries and associates		-	-	24,085	-	-	(24,085)	-
Shareholders contribution to subsidiaries and associates		-	-	(35,701)	-	-	35,701	-
Dividends paid		-	-	-	-	-	(48,266)	(48,266)
Adjustment to previous year		-	-	(875)	-	-	875	-
Other income (expenses)		-	-	-	-	-	91	91
Comprehensive income		-	-	-	-	-	70,048	70,048
Balance at 31 December 2010		489,283	295,767	6,604	21,287	(63,777)	693,434	1,442,598

(End)

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

**STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

	Note	Group 2010	Company 2010	Group 2009	Company 2009
Profit (loss) from continuing and discontinued operations		94,843	45,963	20,583	28,994
Reversal of non-cash expenses (income) and other adjustments					
Depreciation and amortisation expense		198,847	153,955	182,051	179,328
(Reversal of)/impairment charge on assets		39,788	2,296	81,268	80,283
Loss on revaluation of property, plant and equipment		-	-	-	-
Share of profit of associates and joint ventures		-	-	-	-
Income tax expense		18,800	11,542	44,644	44,564
Change in deferred income tax liability		(20,847)	(15,986)	(40,347)	(40,794)
(Income) from grants and connection of new users		(27,385)	(2,492)	(2,640)	(2,620)
Increase (decrease) in provisions		23,207	(948)	(26,183)	(26,183)
Loss on disposal/write-off of non-current assets (except financial assets)		72,722	1,827	1,855	1,198
Elimination of results of financing and investing activity		2,625	(1,090)	(7,768)	(7,991)
Changes in working capital					
(Increase) decrease in trade receivables and other accounts receivable		83,230	61,469	(20,710)	(23,847)
(Increase) decrease in inventories and prepayments		4,535	5,377	(786)	(5,703)
Increase (decrease) in accounts payable and advance amounts received		(43,902)	(88,114)	10,342	13,363
Income tax (paid)		(45,609)	(27,657)	(39,053)	(39,025)
Net cash generated from operating activities		400,854	146,142	203,256	201,567
Cash flows from investing activities					
(Purchase) of property, plant and equipment and intangible assets		(475,147)	(48,134)	(123,435)	(120,083)
Proceeds from sale of PP&E and intangible assets		-	-	-	-
Loans (granted)		-	(9,650)	(74,000)	(76,250)
Term deposits		17,160	17,000	(16,960)	(17,000)
(Acquisition) of bonds		-	-	(39,705)	(39,705)
Disposal of bonds		-	-	55,699	55,699
Other cash flows from investing activities		(59,996)	(73,387)	7,141	5,285
Net cash used in investing activities		(517,983)	(114,171)	(191,260)	(192,054)
Cash flows from financing activities					
Proceeds from borrowings		179,242	-	118	-
(Repayment) of borrowings		(14,200)	(13,811)	(25,896)	(25,896)
Finance lease payments		(735)	-	(392)	-
Other financial activity cash flows		(27,807)	-	(2,116)	(1,876)
Net cash generated from (used in) financing activities		136,500	(13,811)	(28,286)	(27,772)
Net increase (decrease) in cash flows		19,371	18,160	(16,290)	(18,259)
Cash and cash equivalents at the beginning of the period		54,167	51,347	70,457	69,606
Cash and cash equivalents at the end of the period		73,538	69,507	54,167	51,347

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

1 General information

Lietuvos Energija AB is a public company registered in the Republic of Lithuania. On 5 October 2010 the Register of Legal Entities approved the new version of the Articles of the Company; the address of the registered Office of the Company has been changed and henceforth is Elektrinės g. 21, LT-26108, Elektrėnai, Lietuva. Lietuvos Energija AB (hereinafter referred to as the "Company") is a limited liability profit-making entity, registered with the Register of Legal Entities managed by the public Institution Registrų Centras. The Company's registration date is 4 December 1995, reg. No. BĮ 99-74, business ID 220551550, VAT reg. No. LT205515515. The Company is established for an unlimited period.

On 4 March 1995, the Company took over the rights of the former Production, Energy and Electrification Board established originally in 1940 and reorganised into the Lithuanian State Energy System on 27 March 1991, after the restoration of independence of the Republic of Lithuania. The Company was re-registered on 13 April 1999 with the Ministry of Economy.

By its resolution No. 364 dated 24 April 2008 the Government of the Republic of Lithuania declared that 664,700,833 ordinary registered shares of Lietuvos Energija AB with the nominal value of 1 LTL each, owned by the state are transferred as the contribution in-kind of the state represented by the Ministry of the Economy for the increase of the share capital of LEO LT, AB. The Shareholder Agreement of the national investor LEO LT, AB was signed on 27 May 2008. Immediately after that, an extraordinary general shareholder meeting of LEO LT, AB was convened where it was decided to increase the share capital of LEO LT, AB by the in-kind contributions of the shareholders – by contributing shares of VST AB, Rytų Skirstomieji Tinklai AB and Lietuvos Energija AB. On 4 December 2009, the Agreement on the establishment of the national investor was terminated and the decision of the sole shareholder of LEO LT, AB regarding the liquidation of LEO LT, AB became effective on 31 December 2009. Shares of Lietuvos Energija AB were transferred to Visagino Atominė Elektrinė UAB which held 97.50 per cent of the Company's shares as at 30 September 2010. The remaining 2.50 per cent stake of the Company's shares is held by other shareholders.

As of 31 December 2009, the authorised capital of the Company amounted to LTL 689,515,435 and was divided into 689,515,435 ordinary registered shares of LTL 1 par value. On 8 September 2010, the authorised capital was increased from LTL 689,515,435 to LTL 993,614,306 and was divided into 993,614,306 ordinary registered shares of LTL 1 par value. According to decision of the extraordinary general meeting of shareholders of Lietuvos Energija AB of 28 October 2010 whereby splitting of Lietuvos Energija AB was approved, a new version of Lietuvos Energija AB's Articles of Association was registered in the Legal Persons' Register on 16 November 2010 and a new company LITGRID Turtas AB was formed on the basis of the operations separated from Lietuvos Energija AB, which will continue as a going concern after the splitting. LITGRID Turtas AB carries out the operations assigned to it upon splitting. On 30 November 2010, part of the authorised capital of Lietuvos Energija AB amounting to LTL 504,331,380 was transferred to the new company. Upon splitting, the authorised capital of Lietuvos Energija AB is LTL 489,282,926 and is divided into 489,282,926 ordinary registered shares of LTL 1 par value. There were no changes in the authorised capital of the Company in 2009. All the shares have been fully paid for. The shares are on the current list of Vilnius Securities Exchange. The Company did not acquire own shares in 2010 and 2009.

The core activities of the Company in 2010 included electricity production, transmission trading and electricity export. Apart from these key activities, the Company is entitled to carry out any other business activities that are not prohibited by the Lithuanian law and are specified in the Articles of Association of the Company.

As at 30 September 2010 and 31 December 2009, the Company had two operating branches, Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant, operating according to the regulations approved by the Board of the Company.

Licensed activities or activities that require permits can be carried out only after obtaining the appropriate licenses or permits. The Company has permits of unlimited validity to engage in the production, import and export of electricity. With effect from 1 January 2010, the function of the transmission system operator is carried out by LITGRID UAB. Under the requirements of the EU legislative acts on the liberalisation of electric power market, subsidiaries of Lietuvos Energija AB established for the purpose of separating specific activities were issued activity licenses on 28 December 2009. LITGRID AB is the holder of a licence of an electricity transmission system operator and BALTPPOOL UAB is the holder of a licence of a market operator. Since 30 November 2010 both Companies have been separated from the Group and are owned by LITGRID Turtas AB as of 31 December 2010. Lietuvos Energija AB was granted a licence of an independent electricity supplier on 28 December 2009.

As of the date of these financial statements the Company directly participated (controlled or had significant influence) in the management of the following companies: Nordic Energy Link AS (Estonia), Geoterma UAB (Lithuania), NT Valdos UAB (Lithuania), Technologijų ir inovacijų centras UAB (Lithuania), Lietuvos elektrinė AB (Lithuania), Kauno Energetikos Remontas UAB (Lithuania), Energijos Tiekimas UAB (Lithuania), Data Logistics Center UAB (Lithuania). Indirectly, through Kauno Energetikos Remontas UAB, the Company had majority of votes in Gotlitas UAB (Lithuania) and the Company also exercised significant influence over Enmašas UAB (Lithuania). Further information about associates and joint ventures is presented in Note 7.

The consolidated financial statements of Lietuvos Energija AB and its subsidiaries and the separate financial statements of Lietuvos Energija AB as a parent company are presented in these interim financial statements. As at 31 December 2010, the Group consisted of Lietuvos Energija AB and the following directly and indirectly controlled subsidiaries:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010
All amounts in LTL thousand, unless otherwise stated

1 General information (continued)

Company	Address of the company's registered office	Shareholding of the Group as at 31 December 2010	Share capital of the subsidiary as at 31 December 2010	Profit (loss) for 2010	Equity as at 31 December 2010	Principal activities
Kauno Energetikos Remontas UAB	Chemijos g. 17, Kaunas, Lithuania	100 %	31,341	(7,311)	16,586	Repair of energy equipment, production of metal structures
Gotiltas UAB (controlled through Kauno Energetikos Remontas UAB)	R.Kalantos g. 119, Kaunas, Lithuania	100 %	1,100	*	*	Accommodation services, trade
Lietuvos elektrinė AB	Elektrinės g. 21, Elektrėnai, Lietuva	95.54 proc.	145,801	4,601	5,316	Electricity production
Data Logistics Center UAB	Juozapavičiaus g. 13, Vilnius, Lietuva	100 proc.	12,847	5,329	1,030,025	Information technologies services
Energijos Tiekimas UAB	Žvejų g. 14, Vilnius, Lithuania	100 %	750	605	13,452	Independent electricity supply

As at 31 December 2010, the number of employees of the Group was 946 (31 December 2009: 1,227). As at 31 December 2010, the number of employees of the Company was 231 (31 December 2009: 889).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

2 Accounting policies

Presented below are the principal accounting policies adopted in the preparation of the Group's and the Company's financial statements for the year 2010.

2.1 Basis of preparation

These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and applicable to the financial statements.

These financial statements were prepared on a historical cost basis, except for property, plant and equipment which is recorded at revalued amount, less accumulated depreciation and estimated impairment loss (see Note 2.8).

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

2.2 Consolidation principles

The consolidated financial statements of the Group include Lietuvos Energija AB and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period, using consistent accounting policies.

Subsidiaries are consolidated from the date from which effective control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies are eliminated.

2.3 Business combinations

Acquisition of subsidiaries, except for acquisitions between jointly controlled companies, is accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the consideration given, which includes assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The acquiree's identifiable assets acquired, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business combinations*, assumed in a business combination are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups), which are classified as held-for-sale in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* that are recognised and measured at fair value less cost of sale.

Business combinations involving entities under common control are excluded from IFRS 3 "Business combination" scope and therefore predecessor accounting was used. The Group did not restate assets and liabilities to their fair value as at the acquisition date; instead the Group incorporated assets and liabilities at the amounts recorded in the books of the combined companies. No goodwill arises in predecessor accounting and the consolidated financial statements incorporate the combined companies' results from the date of acquisition.

2.4 Investments in subsidiaries (the Company)

Subsidiary is an entity directly or indirectly controlled by a parent company. In the parent company's statement of financial position investments in subsidiaries are stated at cost less impairment, where the investment's carrying amount in the parent's statement of financial position exceeds its estimated recoverable amount.

2.5 Property, plant and equipment

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

Property, plant and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

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

Profit or loss resulting from sale of non-current assets is calculated as the difference between the proceeds from sale and the carrying value of the disposed asset and is recognised in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

2 Accounting policies (continued)

2.6 Inventories

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

2.7 Cash and cash equivalents

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

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

2.8 Foreign currency

Foreign currency transactions are accounted for at the exchange rates as of transaction date as established by the Bank of Lithuania, which approximates market rates. Monetary assets and liabilities are translated to Litas at exchange rate as of the balance sheet date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the statement of comprehensive income of the reporting period.

Starting from 2 February 2002, Lithuanian litas is pegged to euro at the rate of 3.4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania. The applicable rates used for principal currencies were as follows:

At 31 December 2010		At 31 December 2009	
1 LVL	= 4.8646 LTL	1 LVL	= 4.8679 LTL
100 RUB	= 8.5535 LTL	100 RUB	= 7.9465 LTL
10 SEK	= 3.8407 LTL	10 SEK	= 3.3449 LTL
1 USD	= 2.6099 LTL	1 USD	= 2.4052 LTL
10 EEK	= 2.2067 LTL	10 EEK	= 2.2067 LTL

Separate financial statements of the entities of the Group are presented in the main currency of the economic environment in which the entity operates (functional currency). In consolidated financial statements, financial results and financial position of each Group company are presented in Litas, which is the functional currency of the Company and the presentation currency of the consolidated Group's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

2 Accounting policies (continued)

2.9 Grants

Asset-related grants

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

Income-related grants

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

2.10 Provisions

Provisions are recognised when the Group/Company has a legal obligation or irrevocable commitment as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group/Company expects that provision amount in part or in full will be compensated, e.g. by insurance, compensation to be received is recorded as a separate asset, but only when it is virtually certain. Expenses related to provisions are recorded in the statement of comprehensive income, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance costs.

Provisions for pension payments

Each employee is entitled to 2 months salary payment when retiring after reaching the pension age according to Lithuanian legislation. Actuarial calculations are made to determine liability for this pension payment. The liability is recognised at present value discounted using market interest rate.

2.11 Employee benefits

(a) Social security contributions

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

(b) Termination benefits

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

(c) Bonus plans

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

2 Accounting policies (continued)

2.12 Income and expense recognition

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

Revenue from sales of electricity

Revenue from sale of electricity acquired at an auction, electricity export and public service obligations (PSO) electricity sales is recognised when substantially all risks and rewards related to the object of sale have been transferred to the buyer.

Revenue from electricity-related services

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

Tariff regulation

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

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

Tariffs for imported and exported electricity are not regulated.

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

The Company and the Group purchase a capacity reserve service from electricity suppliers in accordance with capacity reserve agreements and subsequently render this service to the distribution system operators and electricity consumers using a tariff established by the Commission.

Repair service revenue

Revenue from customer specific agreements/projects, i.e. repair services (Note 28), is recognised based on the proportion of the work completed, which is estimated by comparing actually incurred costs on the project with the project's total estimated cost. Expected change in the profitability is accounted in the statement of comprehensive income when such change is determined. Projects are reviewed periodically and if determined that a contract will be loss-making, respective provisions are accounted for.

Other income

Interest income is recognised by the accruals method considering the outstanding amount and the applicable interest rate. Received interest is recorded in the statement of cash flows as cash flows from operating activities.

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

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

Recognition of expenses

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

2 Accounting policies (continued)

2.13 Financing expenses

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

2.14 Income tax

Income tax expense consists of the current year income tax and deferred tax expense.

Income tax

The current year income tax charge is based on taxable pre-tax profit for the year as modified by the items of income or expenses that are not subject to tax or deductible. Tax rates used to compute income tax expense are those applicable as of the date of the financial statements. In 2009, income tax at a rate of 20 per cent was applicable in Lithuania (2008: 15 per cent). With effect from 1 January 2010, income tax at a rate of 15 per cent is applied.

Deferred income tax

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

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available for the Group and the Company to realise all or part of deferred tax assets. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled.

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

2.15 Post-balance-sheet events

Post-balance-sheet events that provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are disclosed in the financial statements. Post-balance-sheet events that are not adjusting events are disclosed in the notes when material.

2.16 Related parties

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010
All amounts in LTL thousand, unless otherwise stated

3 Intangible assets

The structure of the Group's intangible assets as at 31 December 2010 and 31 December 2009 is as follows:

Group	Patents and licenses	Software	Environmental pollution licenses	Other intangible assets	Total
At 31 December 2008					
Cost	2,358	18,100	-	36	20,494
Accumulated amortisation	(2,222)	(14,997)	-	(21)	(17,240)
Accumulated impairment	-	(105)	-	-	(105)
Net book amount at 31 December 2008	136	2,998	-	-	3,149
Period ended 31 December 2009					
Opening net book amount	136	2,998	-	15	3,149
Additions	-	1,012	-	18	1,030
Amortisation charge	(125)	(1,589)	-	(10)	(1,724)
Net book amount at 31 December 2009	11	2,421	-	23	2,455
At 31 December 2009					
Cost	2,155	18,231	-	54	20,440
Accumulated amortisation	(2,144)	(15,705)	-	(31)	(17,880)
Accumulated impairment	-	(105)	-	-	(105)
Net book amount at 31 December 2009	11	2,421	-	23	2,455
Period ended 31 December 2010					
Opening net book amount	11	2,241	-	23	2,455
Additions	16	690	141,149	13	141,868
Sales	-	-	(40,579)	-	(40,579)
Used environmental pollution licenses	-	-	(26,909)	-	(26,909)
Revaluation	-	749	(16,937)	-	(16,188)
Transfers from PPE	-	1,243	-	-	1,243
Write-offs and disposals	-	(3,701)	-	(13)	(3,714)
Accumulated amortisation	(10)	(1,303)	-	(23)	(1,336)
Accumulated impairment	-	52	140	-	192
Net book amount at 31 December 2010	17	151	56,864	-	57,032
At 31 December 2010					
Cost	2,171	17,212	73,661	54	93,098
Accumulated amortisation	(2,154)	(17,008)	-	(54)	(19,216)
Accumulated impairment	-	(53)	(16,797)	-	(16,850)
Net book amount at 31 December 2010	17	151	56,864	-	57,032

The structure of the Company's intangible assets as at 31 December 2010 and 31 December 2009 is as follows:

Company	Patents and licenses	Software	Other intangible assets	Total
At 31 December 2008				
Cost	2,277	17,941	-	-
Accumulated amortisation	(2,159)	(14,915)	-	-
Net book amount at 31 December 2008	118	3,026	-	-
Period ended 31 December 2009				
Opening net book amount	118	3,026	-	-
Additions	-	850	-	-
Amortisation charge	(118)	(1,516)	-	-
Net book amount at 31 December 2009	-	2,360	-	-
At 31 December 2009				
Cost	2,073	17,910	-	-
Accumulated amortisation	(2,073)	(15,550)	-	-
Net book amount at 31 December 2009	-	2,360	-	-
Period ended 31 December 2010				
Opening net book amount	-	2,360	-	2,360
Revaluation	144	749	-	893
Assets contributed to the share capital associates	(144)	(3,275)	-	(3,419)
Additions and transfers from PPE	-	1,474	13	1,487
Transferred to LITGRID Turtas AB	-	(400)	(12)	(412)
Write offs and disposals	-	(8)	-	(8)
Amortisation charge	-	(882)	(1)	(883)
Net book amount at 31 December 2010	-	-	-	-
At 31 December 2010				
Cost	-	882	1	883
Accumulated amortisation	-	(882)	(1)	(883)
Net book amount at 31 December 2010	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 31 DECEMBER 2010**
 All amounts in LTL thousand, unless otherwise stated

4 Property, plant and equipment

The structure of the Group's property, plant and equipment as at 31 December 2010 and 31 December 2009 is as follows:

Group	Hydro Power Plant and Pumped Storage							Total
	Land	Buildings	Structures and machinery	Power Plant	Motor vehicles	Other PP&E	Construction in progress	
At 31 December 2008								
Cost	286	199,607	2,186,547	648,893	9,596	63,235	146,202	3,254,366
Accumulated depreciation	-	-	-	(92,130)	-	-	-	(92,130)
Accumulated Impairment	-	(6,686)	(4,013)	(1,138)	-	(728)	-	(12,565)
Net book amount	286	192,621	2,182,534	555,625	9,596	62,507	146,202	3,149,671
Period ended 31 December 2009								
Opening net book amount	286	192,921	2,182,534	555,625	9,596	62,507	146,202	3,149,671
Additions	-	4,610	1,039	38,830	245	14,347	49,384	108,455
Revaluation	-	(44,509)	(191,900)	-	-	(3)	(522)	(236,934)
Disposals	-	(306)	-	-	-	(2)	-	(308)
Write-offs	-	-	(1,504)	(332)	-	(19)	-	(1,855)
Reversal of Impairment	-	-	-	369	-	-	-	369
Reclassification between groups	-	7,014	147,133	-	-	14,256	(168,403)	-
Transferred to inventories	-	(4,619)	(2,165)	-	-	(1,258)	-	(8,042)
Transferred to Investment property	-	(20,064)	-	-	-	-	-	(20,064)
Depreciation charge	-	(4,875)	(129,815)	(22,283)	(2,900)	(19,474)	-	(179,347)
Net book amount	286	130,172	2,005,322	572,209	6,941	70,354	26,661	2,811,945
At 31 December 2009								
Cost	286	141,733	2,139,150	687,391	9,841	90,556	26,661	3,092,618
Accumulated depreciation	-	(4,875)	(129,815)	(114,413)	(2,900)	(19,474)	-	(271,477)
Accumulated Impairment	-	(6,686)	(4,013)	(769)	-	(728)	-	(12,196)
Net book amount	286	130,172	2,005,322	572,209	6,941	70,354	26,661	2,611,945

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010
All amounts in LTL thousand, unless otherwise stated

4 Property, plant and equipment (continued)

Grupė	Land	Buildings	Structures and machinery	Hydro Power Plant and Pumped Storage Power Plant	Motor vehicles	Other PP&E	Construction in progress	Total
Period ended 31 December 2010								
Opening net book amount	286	130,172	2,005,322	572,209	6,941	70,354	26,661	2,811,94
Additions	7,542	31	580	2,386,770	280	8,928	41,303	2,445,43
Contribution to the Company's share capital	-	1,095	55,925	-	-	248	-	57,26
Revaluation of contribution	-	11,535	(436)	-	1,482	3,501	-	16,08
Assets contributed to the share capital associates	-	(75,701)	(21,213)	-	(6,138)	(17,286)	-	(120,338)
Transferred to LITGRID Turtas AB	(1,961)	(33,336)	(1,933,911)	-	-	(35,449)	(47,538)	(2,052,195)
Disposals	-	-	-	-	-	(19)	-	(19)
Write-offs	-	(3)	(1,666)	(319)	(292)	(67)	434	(1,913)
Impairment	-	(1,000)	(2,940)	-	(31)	(1,000)	-	(4,971)
Reclassification between groups	-	472	20,470	(4,052)	1,151	(2,237)	(15,804)	-
Transfers to intangible assets	-	-	-	-	-	(1,243)	-	(1,243)
Transfers from Inventories	-	-	-	4,233	47	-	-	4,280
Transfers to investment property	-	(1,696)	-	-	-	-	-	(1,696)
Depreciation	-	(3,109)	(115,238)	(63,087)	(1,997)	(14,080)	-	(197,511)
Net book amount At 31 December 2010	5,867	28,460	6,893	2,895,754	1,443	11,650	5,056	2,955,12
Cost	5,867	44,130	258,899	3,074,023	6,371	46,932	5,056	3,441,27
Accumulated depreciation	-	(7,984)	(245,053)	(177,500)	(4,897)	(33,554)	-	(468,988)
Accumulated impairment	-	(7,686)	(6,953)	(769)	(31)	(1,728)	-	(17,167)
Net book amount	5,867	28,460	6,893	2,895,754	1,443	11,650	5,056	2,955,12

The structure of the Company's property, plant and equipment as at 31 December 2010 and 31 December 2009 is as follows:

Company	Land	Buildings	Structures and machinery	Hydro Power Plant and Pumped Storage Power Plant	Motor vehicles	Other PP&E	Construction in progress	Total
At 31 December 2008								
Cost	286	156,404	2,177,144	648,893	8,343	62,646	146,339	3,200,055
Accumulated depreciation	-	-	-	(92,130)	-	-	-	(92,130)
Accumulated impairment	-	(145)	(1,224)	(1,138)	-	(728)	-	(3,235)
Net book amount	286	156,259	2,175,920	555,625	8,343	61,918	146,339	3,104,690

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010
All amounts in LTL thousand, unless otherwise stated

4 Property, plant and equipment (continued)

Company	Hydro Power Plant and Pumped Storage Power Plant						Construct ion in progress	Total
	Land	Buildings	Structures and machinery	Motor vehicles	Other PP&E			
Period ended 31 December 2009								
Opening net book amount	286	156,259	2,175,920	555,625	8,343	61,918	146,339	3,104,690
Additions	-	4,009	887	38,830	73	14,047	49,795	107,641
Revaluation	-	(40,321)	(191,900)	-	-	-	(522)	(232,743)
Disposals	-	-	-	-	-	(2)	-	(2)
Write-offs	-	-	(853)	(332)	-	(11)	-	(1,196)
Reversal of Impairment	-	-	-	369	-	-	-	369
Reclassifications between groups	-	7,014	147,133	-	-	14,256	(168,403)	-
Reclassification to investment property	-	(22,208)	-	-	-	-	-	(22,208)
Depreciation	-	(4,113)	(128,757)	(22,283)	(2,560)	(19,387)	-	(177,100)
Net book amount	286	100,640	2,002,430	572,209	5,856	70,821	27,209	2,779,451
Cost or revalued amount	286	100,785	2,003,654	687,391	8,416	90,936	27,209	2,918,677
Accumulated depreciation	-	-	-	(114,413)	(2,560)	(19,387)	-	(136,360)
Accumulated impairment	-	(145)	(1,224)	(769)	-	(728)	-	(2,866)
Net book amount	286	100,640	2,002,430	572,209	5,856	70,821	27,209	2,779,451
Period ended 31 December 2010								
Opening net book amount	286	100,640	2,002,430	572,209	5,856	70,821	27,209	2,779,451
Additions	7,542	31	580	14,129	280	8,876	41,303	72,741
Contribution to the Company's share capital	-	1,095	55,925	-	-	248	-	57,268
Disposals	-	-	-	-	-	(19)	-	(19)
Write-offs	-	(3)	(1,666)	(2)	-	(15)	(114)	(1,800)
Impairment	-	-	-	-	(31)	-	-	(31)
Reclassification between groups	-	472	20,470	(4,052)	1,151	(2,237)	(15,804)	-
Transfers to Intangible assets	-	-	-	-	-	(1,243)	-	(1,243)
Transfers from Inventories	-	-	-	-	47	-	-	47
Revaluation of contribution Assets contributed to the share capital of associates	-	11,535	(436)	-	1,482	3,501	-	16,082
Transferred to LITGRID Turtas AB	(1,961)	(33,336)	(1,933,911)	-	-	(35,449)	(47,538)	(2,052,195)
Transfers to Investment property	-	(1,696)	-	-	-	-	-	(1,696)
Depreciation	-	(2,773)	(111,705)	(21,986)	(1,980)	(13,984)	-	(152,428)
Net book amount	5,867	264	10,474	560,298	667	416	5,056	583,042
Cost or revalued amount	5,867	415	11,698	697,466	5,238	34,515	5,056	760,255
Accumulated depreciation	-	-	-	(136,399)	(4,540)	(33,371)	-	(174,310)
Accumulated Impairment	-	(151)	(1,224)	(769)	(31)	(728)	-	(2,903)
Net book amount	5,867	264	10,474	560,298	667	416	5,056	583,042

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010
 All amounts in LTL thousand, unless otherwise stated

5 Investments

As at 31 December 2010 and 31 December 2009, the Company had direct control over these subsidiaries:

Subsidiary	Acquisition cost	Impairment	Carrying amount
At 31 December 2010			
Lietuvos elektrinė AB	598,960	-	598,960
Kauno energetikos remontas UAB	31,341	(21,041)	10,300
Data Logistics Center UAB	12,847	-	12,847
Energijos tiekimas UAB	750	-	750
Total	643,898	(21,041)	622,857
At 31 December 2009			
Kauno energetikos remontas UAB	31,341	(15,441)	15,900
Kruonio investicijos UAB	2,361	(914)	1,447
Interlinks UAB	903	-	903
LITGRID UAB	500	-	500
Energetikos pajėgos UAB	414	-	414
Energijos tiekimas UAB	400	-	400
Respublikinis energetikų mokymo centras VŠĮ	-	-	-
Total	35,919	(16,355)	19,564

On 18 August 2010 the Company acquired 133,065,125 ordinary registered shares in Lietuvos Elektrinė AB, which accounts for 91,27% of all the shares of Lietuvos Elektrinė AB. These shares in Lietuvos Elektrinė AB were used for the payment for the increase in the Company's authorised capital by Visagino Atominė Elektrinė UAB.

On 8 October 2010, the Company purchased 6,227,836 ordinary registered shares of LTL 1 par value each in Lietuvos Elektrinė AB from Visagino Atominė Elektrinė UAB, which accounts for approx. 4.27% of all the shares in Lietuvos Elektrinė AB and as of 31 December 2010 held 139,292,961 shares in Lietuvos Elektrinė AB, which accounts for approx. 95.54% of the total number of shares.

Data Logistics Center UAB was formed on 1 September 2010. The purpose of this private company is to provide the services of data centres, data transmission, optical fibre cable renting and other telecommunications services to customers within the group of energy companies.

Energijos Tiekimas UAB was formed at the end of 2009. Core business activity of Energijos Tiekimas UAB is the independent supply of electricity including supply, planning, forecasting, balancing, purchasing, selling, importing and exporting of electricity and other activities directly related thereto. Since 2010, the company has been actively conducting business of an independent supplier in the domestic electricity markets of the Baltic States.

LITGRID UAB was established at the end of 2009. The main function of LITGRID UAB as the transmission system operator since 1 January 2010 is to ensure the efficient and reliable functioning of the Lithuanian power system. On 30 June 2010, Lietuvos Energija AB as the sole shareholder of LITGRID UAB adopted a decision to reorganise LITGRID UAB private company into a public company. On 30 November 2010, 100% of shares in LITGRID AB were transferred to LITGRID Turtas AB separated from Lietuvos Energija AB as part of implementation of the energy sector reorganisation plan.

Public Entity National Centre for Training of Energy Specialists is a public not-for-profit legal person with limited civil liability, established according to the procedure prescribed by the Law on Public Institutions No. I-1428. The Law provides for restrictions on the distribution of profit earned by public institutions. A public institution may not distribute its profit to purposes other than those listed in its Articles of Association. Acting according to decisions adopted at a general meeting of shareholders held on 28 September 2010, Lietuvos Energija AB entered into a shareholder's rights sale-purchase agreement with Technologijų ir Inovacijų Centras UAB on 27 October 2010 as a result of which the Company forfeited all its rights of a shareholder of Public Entity National Centre for Training of Energy Specialists.

On 13 October 2010, Lietuvos Energija AB acting according to decisions adopted at a general meeting of shareholders held on 28 September 2010 and under a share subscription agreement of 13 October 2010 acquired 22,468,259 newly issued ordinary registered shares of LTL 1 par value in Technologijų ir Inovacijų Centras UAB, with the share issue price equal to the par value, i. e. LTL 1, which accounts for approx. 50.66% of the total number of shares of Technologijų ir Inovacijų Centras UAB. The share subscription agreement concluded by and between the Company and Technologijų ir Inovacijų Centras UAB stipulates that the Company will pay for the newly issued ordinary registered shares of LTL 1 par value in Technologijų ir Inovacijų Centras UAB by cash and non-cash contributions. Thus, on conclusion of the said share subscription agreement, the Company forfeited 1,500,000 ordinary registered shares of LTL 1 par value in InterLinks, UAB accounting for 100% of the authorised capital of InterLinks, UAB and 18,478 ordinary registered uncertificated shares of LTL 100 par value in Kruonio Investicijos UAB accounting for 78.26% of the authorised capital of Kruonio Investicijos UAB.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 31 DECEMBER 2010**
 All amounts in LTL thousand, unless otherwise stated

5 Investments (continued)

Acting according to decisions adopted at a general meeting of shareholders held on 28 September 2010, Lietuvos Energija AB acquired, under a share subscription agreement of 21 October 2010, 1,276,667 ordinary registered shares of LTL 100 par value in Kruonio Investicijos UAB, which accounts for approx. 41.1% of the total number of shares of Kruonio Investicijos UAB. On 21 October 2010, Kruonio Investicijos UAB was renamed into NT Valdos UAB.

Acting according to decisions adopted at a general meeting of shareholders held on 28 September 2010, Lietuvos Energija AB acquired, under share subscription agreements of 14 October 2010, 4,731,440 newly issued ordinary registered shares of LTL 1 par value in Elektros Tinklo Paslaugos UAB, which accounts for approx. 28.86% of the total number of shares of Elektros Tinklo Paslaugos UAB, and 3,454,350 newly issued ordinary registered shares of LTL 1 par value in Tetas UAB, which accounts for approx. 60.97% of the total number of shares of Tetas UAB.

The share subscription agreement concluded by and between the Company and Tetas UAB stipulates that the Company will pay for the newly issued ordinary registered shares of LTL 1 par value in Tetas UAB by cash and non-cash contributions. Thus under the said share subscription agreement the Company transferred to Tetas UAB 430,400 ordinary registered shares in Energetikos Pajėgos UAB, which accounts for 100% of the authorised capital of Energetikos Pajėgos UAB.

As part of the energy sector reorganisation plan, 18.86% of the shares in Elektros Tinklo Paslaugos UAB and 60.97% of the shares in Tetas UAB on 30 November 2010 were transferred to LITGRID Turtas AB – a public company separated from Lietuvos Energija AB.

The Company had indirect control over Gotlitas AB and (until 2 June 2009) Kalningradski Energoremont OOO, i. e. through Kauno Energetikos Remontas UAB (Note 1). As stated in Note 3, over 2010 the Company recognised additional LTL 5,600,000 impairment of its investment in Kauno Energetikos Remontas UAB.

6 Inventories

Inventories of the Group and the Company are shown in the table below.

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
Oil	118,942	-	-	-
Materials and consumables, production in progress and finished goods at acquisition (production) cost	12,168	859	9,291	4,144
Other materials	8,757	-	-	-
Goods for resale at acquisition cost	29	29	146	146
Less: write-down to net realisable value	(13,013)	(149)	(5,618)	(1,045)
Total	126,883	739	3,819	3,245

7 Trade receivables

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

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
Receivables for electricity sold in Lithuania	179,547	102,262	142,037	142,037
Receivables for repair and design works	3,958	-	7,894	-
Unbilled revenue from electricity-related sales	5,173	5,173	8,576	8,576
Receivables for exported electricity	-	149	23,543	23,543
VAT on unbilled revenue	-	-	25	25
Total	188,678	107,584	182,075	174,181
Less: provision for doubtful receivables	(9,617)	(9,612)	(11,733)	(10,024)
Carrying amount	179,061	97,972	170,342	164,157

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 31 DECEMBER 2010**
 All amounts in LTL thousand, unless otherwise stated

8 Other receivables

Current other trade receivables of the Group and the Company are as follows:

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
Loan granted VAE, AB	-	-	73,309	73,309
Other receivables	4,920	1,960	4,444	4,199
Deferred VAT receivable	12,671	674	-	-
Receivables for IT and telecommunications services	1,750	850	2,623	2,623
Accrued interest receivable	-	-	840	840
Current portion of long-term receivables	-	-	28	28
Loan granted to Data Logistics Center ^{UAB}	-	150	-	-
Loan granted to Kauno energetikos remontas UAB	-	6,500	-	-
Loan granted to Technologijų ir inovacijų centras	3,000	3,000	-	691
Total	22,341	13,134	81,244	81,690
Less: provision for doubtful receivables	(1,400)	(1,268)	(3,676)	(3,676)
Carrying amount at the end of the period	20,941	11,866	77,568	78,014

9 Cash and cash equivalents

Cash and cash equivalents of the Group and the Company are disclosed in the table below:

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
Cash at bank and in hand	69,576	63,909	9,286	6,866
Overnight deposit at Swedbank AB (contract currency litas)	16,023	4,272	481	481
Overnight deposit at Swedbank AB (contract currency euro)	1,326	1,326	-	-
Term deposit at Swedbank AB (contract currency litas), maturity – January 2010	-	-	10,000	10,000
Term deposit at Swedbank AB (contract currency litas), maturity – January 2010	-	-	10,000	10,000
Term deposit at DanskeBank AB (contract currency litas), maturity – January 2010	-	-	10,000	10,000
Term deposit at DanskeBank AB (contract currency litas), maturity – January 2010	-	-	7,000	7,000
Term deposit at DanskeBank AB (contract currency litas), maturity – January 2010	-	-	7,000	7,000
Term deposit at SEB Bank AB (contract currency litas), maturity – February 2010	-	-	300	-
Term deposit at SEB Bank AB (contract currency litas), maturity – January 2010	-	-	100	-
Apskaitinė vertė	86,925	69,507	54,167	51,347

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

10 Share capital

The shareholders' structure of the Company is as follows:

Shareholders	Share capital at 31 cember 2010		Share capital at 31 cember 2009	
	(litai)	Proc.	(litai)	Proc.
Visagino atominė elektrinė UAB	477,063,400	97.50	-	-
Other shareholders LEO LT, AB	12,219,526	2.50	24,814,046	3.60
State of Lithuania represented by the Ministry of the Energy	-	-	664,700,833	96.40
			556	0.00
Total	489,282,926	100.00	689,515,435	100.00

Visagino atominė elektrinė UAB is owned by the State of Lithuania represented by the Ministry of the Energy (100 %).

11 Legal reserve

Statutory reserve is formed according to the provisions of Lithuanian legal acts. Every year at least 5% of net profit must be transferred to the statutory reserve until its amount reaches 10% of the amount of the authorised capital. As of 31 December 2010 and 31 December 2009, the Company held a LTL 68,952,000 statutory reserve amounting to 10% of the authorised capital. In 2010, part of the statutory reserve (LTL 47,665,000) was transferred to LITGRID Turtas AB according to the terms and conditions of separation. Statutory reserve amounted to LTL 21,287,000 as of 31 December 2010.

12 Borrowings

The Group's and the Company's borrowings according to repayment terms are presented in the table below:

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
Non-current borrowings				
Syndicated loan (AB „Swedbank“, AB „SEB bankas“, Nordea Bank Finland Plc skyrius, AB „DnB NORD“ bankas, AB "Danske Bankas")	88,447	-	-	-
European Bank for reconstruction and development (EBRD) loan	191,521	-	-	-
Syndicated loan (AB „Swedbank“, AB „SEB bankas“, Nordea Bank Finland Plc skyrius, AB „DnB NORD“ bankas)	217,625	-	-	-
Loan for environmental projects AB "DnB NORD"	5,571	-	-	-
Non-current borrowings total:	503,164	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010

All amounts in LTL thousand, unless otherwise stated

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
Current borrowings				
Syndicated loan (AB „Swedbank“, AB „SEB bankas“, Nordea Bank Finland Plc skyrius, AB „DnB NORD“ bankas, AB „Danske Bankas“)	14,253	-	-	-
Overdraft, Energijos tiekimas UAB“	13,534	-	-	-
Owerdraft, Swedbank AB	12,988	-	-	-
Loan for environmental projects AB “DnB NORD”	3,714	-	-	-
European Bank for reconstruction and development (EBRD) loan	873	-	-	-
Loan for refinancing of non-current assets acquisition AS „UniCredit Bank“ Lithuania branch	-	-	13,811	13,811
UAB „Data Logistics Center“ loan	-	-	389	-
Current borrowings total:	45,362	-	14,200	13,811

On 6 May 2010 Lietuvos energija AB made an early repayment of the loan of LTL 13,811 to Unicredit Bank Lithuania Branch.

As at 31 December 2010 and 31 December 2009 the Company and the Group had no other valid unwithdrawn loan agreements.

13 Grants

The grants balance consists of grants related to the financing of assets acquisition. Movements in grants in 2009 and 2008 are as follows:

	Group	Company
Balance at 31 December 2008	66,339	66,309
Received during the period	7,721	7,704
Utilised during the period	(2,640)	(2,620)
Balance at 31 December 2009	71,420	71,393
Balance at 31 December 2009	71,420	71,393
Received during the period	871,429	1,128
Transferred to LITGRID Turtas AB	(42,507)	(42,507)
Utilised during the period	(27,385)	(2,492)
Balance at 31 December 2010	872,957	27,522

14 Other non-current accounts payable and liabilities

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
Non-current payable for the assets	4,703	4,680	-	-
Advances received from new customers	-	-	8,224	8,224
Provisions for pension payments and injury compensations	830	830	1,735	1,735
Liability related to guarantees for Nordic Energy Link	718	718	995	995
Total	6,251	6,228	10,954	10,954

Provision for pension payments represents calculated amounts to be paid according to Lithuanian legislation. Each employee is entitled to 2 months salary payment when retiring after reaching the pension age.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010
All amounts in LTL thousand, unless otherwise stated

15 Trade payables

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

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
Amounts payable for contractual works, other services	34,452	35,189	38,848	39,130
Amounts payable for electricity and related services	16,468	16,198	105,181	105,181
Amounts payable for oil and gas	29,339	-	-	-
Accrued liability for electricity	7,335	7,335	12,401	12,401
Amounts payable for material values	50,680	-	694	694
Total	138,274	58,722	157,124	157,406

The fair value of trade payables approximates their carrying amounts.

16 Other payables

Other accounts payable of the Group and the Company are as follows:

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
Current portion of deferred income	-	-	803	803
VAT payable to the budget	7,736	4,798	2,157	1,756
Employment-related liabilities	2,744	654	3,282	1,868
Vacation reserve	1,558	629	2,332	2,150
Accrued other charges	3,855	2,628	5,408	5,408
Dividends payable	1,826	727	507	507
Other accounts payable and current liabilities	1,536	177	3,175	35
Real estate tax payable	2,891	2,829	2,283	2,230
Provisions for injuries	20	20	20	20
Natural resource tax	855	488	387	387
Deferred VAT payable	-	-	1	1
Total	23,021	12,950	20,355	15,165

The fair value of other accounts payable approximates their carrying amounts.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 31 DECEMBER 2010**
 All amounts in LTL thousand, unless otherwise stated

17 Sales revenue

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

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
Domestic sales of electricity (excluding PSO)	970,136	898,579	269,353	-
Public service obligations (PSO)	-	-	623,144	-
Electricity transmission service	-	-	219,272	-
Capacity reserve	30,920	30,920	136,479	-
Export of electricity	52,431	52,431	265,223	265,224
Other sales of electricity and related services	-	-	6,287	-
Sales of heat energy	4,641	-	-	-
Revenue from connection of new users	-	-	731	731
Total	1,058,128	981,930	1,520,489	265,955

18 Other operating income

In 2009 and 2008, the Group's and the Company's other operating income included as follows:

	Group at 31 December 2010	Company at 31 December 2010	Group at 31 December 2009	Company at 31 December 2009
IT services	-	-	19,635	19,680
Repairs and other services	14,179	-	16,477	-
Rent of property	-	-	4,663	5,114
Other income	696	674	4,481	226
Health, catering and recreational services	-	-	762	762
Design works	-	-	2,063	-
Gain on disposal of property, plant and equipment	-	-	170	170
Total	14,875	674	48,251	25,952

19 Discontinued operations

LITGRID UAB, a subsidiary of the Company, started functioning as a transmission system operator on 1 January 2010. Therefore, in the Statement of Comprehensive Income of the Company for the period ended on 31 December 2010, comparative figures for 2009 were disclosed upon elimination of the income and costs related to the operations transferred to the subsidiary. In addition, the 2009 comparative figures do not include energy trading (market operator's) activities in 2009 as the Company has been conducting energy trade of different kind since 2010, i. e. trading is conducted through the Lithuanian Electricity Exchange.

On 30 November 2010, Lietuvos Energija AB transferred to LITGRID Turtas AB – a company separated from the Company – the Lithuanian power transmission system including the system's control, maintenance and operation activities. Therefore, all income earned from and all costs connected with these activities in 2010 have been included in the item of discontinued operations.

Information technology activities and related non-current assets of Lietuvos Energija AB were transferred to the Company's subsidiary Data Logistics Center UAB and associated company Technologijų ir Inovacijų Centras UAB. Therefore, all income earned from and all costs connected with the IT activities have been included in the item of discontinued operations.

Real estate of Lietuvos Energija AB as well as activities related to real estate lease and fitness centres were transferred in full to the Company's subsidiary NT Valdosa UAB. Therefore, all the related income and costs were disclosed as discontinued operations.

**NOTES TO THE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 31 DECEMBER 2010**
 All amounts in LTL thousand, unless otherwise stated

20 Related-party transactions

Purchase and sale of goods and services:

The Group's transactions with related parties during 2010 and the balances arising on these transactions as at 31 December 2010 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
LR Ūkio ir Energetikos ministerijų valdomos bendrovės	196,918	3,655,417	979,847	11,514,374
Visagino atominė elektrinė UAB	28	24	58,266	381
Associates of the Group	173	2,210	861,395	1,045
Total	197,119	3,657,651	1,899,508	11,515,800

The Company's transactions with related parties during 2010 and the balances arising on these transactions as at 31 December 2010 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Subsidiaries of the Company	670	20,189	1,239	197,318
Entities controlled by the Ministry of Energy of the Republic of Lithuania (including subsidiaries of LEO LT, AB)	29,509	83,153	2,227	1,114,191
UAB Visagino atominė elektrinė	28	24	58,266	381
Associates of the Company	118	2,051	861,286	816
Total	30,325	105,417	923,018	1,312,706

The Group's transactions with related parties during 2009 and the balances arising on these transactions as at 31 December 2009 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministry of Energy of the Republic of Lithuania (including subsidiaries of LEO LT, AB)	79,054	121,410	729,150	1,112,524
LEO LT, AB	414	73,406	1,728	1,366
Associates of the Group	164	3	13,417	665
Total	79,632	194,819	744,295	1,114,555

The Company's transactions with related parties during 2009 and the balances arising on these transactions as at 31 December 2009 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Sales
Entities controlled by the Ministry of Energy of the Republic of Lithuania (including subsidiaries of LEO LT, AB)	78,290	120,705	728,135	1,108,575
Subsidiaries of the Company	3,386	1,079	8,232	1,492
LEO LT, AB	414	73,406	1,728	1,366
Associates of the Company	1	3	13,265	640
Total	82,091	195,193	751,360	1,112,073

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010**
All amounts in LTL thousand, unless otherwise stated

21 Post-balance-sheet events

Concerning drafting of the reorganisation terms and conditions

The extraordinary general meeting of shareholders of Lietuvos Energija AB held on 19 January 2011 adopted a decision to charge the Board of the Company with the responsibility for drafting, jointly with the Board of Lietuvos Elektrinė AB, the terms and conditions of reorganisation of Lietuvos Energija AB and Lietuvos Elektrinė AB by merging (Article 2.97(2) of the Civil Code of the Republic of Lithuania).

Concerning replacement of the Director General

On 11 February 2011 the Board of the Company passed a decision to approve resignation of the Director General Aloyzas Koryzna. Mr. Aloyzas Koryzna has also filed an application for resignation from the position of a member of the Board of Lietuvos Energija AB. The Board appointed Dalius Misiūnas as the new Director General of Lietuvos Energija AB.

Concerning formation of a subsidiary

The Boards of Lietuvos Energija AB and Kauno Energija AB adopted decisions on the formation of a joint venture which will carry out a project on the construction of a new Kaunas co-generation plant using biofuel. It is planned that the share capital of the new company will amount to LTL 200,000, with Lietuvos Energija AB and Kauno Energija AB acquiring 67% and 33% of the shares in the company respectively.
