Bank of Lithuania
Žirmūnų street 151,
LT-09128 Vilnius

15-03-2013

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 21 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Arvydas Tarasevičius, Chief Executive Officer of LESTO AB, and, Ramutė Ribinskienė, Director of Finance and Administration Service, hereby do confirm that, to the best of our knowledge, the attached Consolidated Audited Financial Statements of the year 2012 of LESTO AB and the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position, profit or loss and cash flow of LESTO AB and its consolidated enterprises, and that the review of activities and business development as well as the condition of LESTO AB and its consolidated enterprises together with the description of the principle risks and uncertainties it faces has been described correctly in the LESTO AB and the Group Annual Report for the year 2012.

Chief Executive Officer Arvydas Tarasevičius

Director of Finance and Administration Service Ramutė Ribinskienė

AB LESTO
Žvejų str.14
LT-09310 Vilnius, Lithuania
www.lesto.lt

Company Code 302577612
VAT code LT 100005809812
Centre of Registers
Register manager

Contact Center tel. 1802
Tel. (8 ~ 5) 277 7524
Fax. (8 ~ 5) 277 7514
E-mail. info@lesto.lt

LESTO AB

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

CONTENTS Pages

pwc

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

Independent Auditor's Report

To the shareholders of LESTO AB

Report on the financial statements

We have audited the accompanying stand-alone and consolidated financial statements of LESTO AB ("the Company") and its subsidiaries ("the Group") set out on pages 5 to 44, which comprise the stand-alone and consolidated statements of financial position as of 31 December 2012 and the stand-alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information ("the financial statements").

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Basis for Qualified Opinion

According to the Company's and the Group's accounting policy, property, plant and equipment should be carried at revalued amounts (being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses) and are subject to an impairment test when impairment indicators exist. As explained in Note 3 to the financial statements, amendments to the legislation may have had a significant adverse impact on the fair value and recoverable amount of the Company's and the Group's assets. The management has not reassessed fair values of property, plant and equipment with the carrying amounts of LTL 4,586 million and LTL 4,639 million, respectively, as of 31 December 2012 (LTL 4,675 million and LTL 4,727 million, respectively, as of 31 December 2011), or carried out a proper impairment test. It has not been possible to estimate reliably the effects of this non-compliance on the Financial statements.

Qualified opinion

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

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated annual report for the year ended 31 December 2012 set out on pages 45 to 115 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2012.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
15 March 2013

Statement of financial position

	Note	GROUP		COMPANY	
ASSETS		**31 Dec 2012**	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Non-current assets					
Property, plant, and equipment	4	4 733 676	4 823 970	4 585 537	4 676 010
Intangible assets	5	7 057	5 728	6 974	5 672
Prepayments for property, plant, equipment and intangible assets		7 394	7 344	7 394	7 344
Investments in subsidiaries	32	-	-	195 628	191 018
Investments in associates	31	18 020	21 194	19 082	21 570
Investment property	6	141 730	135 588	-	-
Deferred income tax assets	20	210	-	-	-
Non-current receivables	7	2 183	2 369	2 183	2 369
		4 910 270	**4 996 193**	**4 816 798**	**4 903 983**
Current assets					
Inventories	8	9 981	14 404	4 900	11 817
Trade and other receivables	9	190 911	184 228	184 296	178 478
Prepayments, deferred charges and accrued income	10	22 003	24 230	21 638	23 921
Prepaid income tax		-	22	-	-
Term deposits	12	3 000	5 000	-	-
Cash and cash equivalents	12	30 066	58 708	9 581	44 161
		255 961	286 592	220 415	258 377
Non-current assets classified as held for sale		4 280	760	2 488	-
		260 241	**287 352**	**222 903**	**258 377**
Total assets		**5 170 511**	**5 283 545**	**5 039 701**	**5 162 360**
EQUITY					
Equity attributable to owners of the Company					
Share capital	13	603 945	603 945	603 945	603 945
Revaluation reserve	14	1 634 355	1 837 060	1 605 245	1 803 976
Legal reserve	14	60 450	60 465	60 394	60 394
Retained earnings		1 001 228	1 014 492	1 044 584	1 060 429
		3 299 978	**3 515 962**	**3 314 168**	**3 528 744**
Non-controlling interest		**131 452**	**127 380**	**-**	**-**
Total equity		**3 431 430**	**3 643 342**	**3 314 168**	**3 528 744**
LIABILITIES					
Non-current liabilities					
Borrowings	19	395 647	325 362	395 647	325 362
Deferred income tax liability	20	360 697	391 813	358 373	389 643
Deferred income	15	319 014	334 086	319 014	334 086
Grants and subsidies	16	45 940	46 370	45 940	46 370
Non-current employee benefits		3 220	3 452	3 220	3 346
Other non-current liabilities		322	510	322	510
		1 124 840	**1 101 593**	**1 122 516**	**1 099 317**
Current liabilities					
Borrowings	19	181 120	119 366	181 120	119 366
Trade and other payables	17	330 224	300 419	324 000	298 280
Advance amounts received, accrued charges and deferred income	18	84 486	88 635	79 722	86 463
Derivative financial instruments	11	1 558	1 511	1 558	1 511
Income tax payable		16 853	28 679	16 617	28 679
		614 241	**538 610**	**603 017**	**534 299**
Total liabilities		**1 739 081**	**1 640 203**	**1 725 533**	**1 633 616**
Total equity and liabilities		**5 170 511**	**5 283 545**	**5 039 701**	**5 162 360**

The notes on pages 9 to 44 are an integral part of these financial statements.
The financial statements on pages 5 to 44 were approved by LESTO AB Chief Executive Officer, Director of Finance and Administration Service and Director of Accounting Department on 15 March 2013.

Chief Executive Officer	Arvydas Tarasevičius		
Director of Finance and Administration Service	Ramutė Ribinskienė		
Director of Accounting Department	Zina Chmieliauskienė		

Statement of comprehensive income

	Note	GROUP		COMPANY	
		2012	**2011**	**2012**	**2011**
Revenue	21	2 283 653	2 245 484	2 253 120	2 216 320
Purchase of electricity		(1 594 288)	(1 547 677)	(1 594 288)	(1 547 677)
Depreciation and amortisation	4,5,16	(407 140)	(431 541)	(396 928)	(421 006)
Employee benefits and related social security contributions	22	(160 654)	(156 803)	(130 901)	(132 959)
Repair and maintenance expenses		(64 973)	(70 554)	(81 599)	(76 127)
Transportation expenses		(11 857)	(11 834)	(14 996)	(18 789)
Telecommunications and IT services		(22 984)	(22 150)	(21 192)	(20 641)
Rent and utility services		(9 684)	(9 183)	(10 428)	(12 858)
Revaluation of property, plant and equipment	4	(532)	(8 753)	(372)	(15)
Effect of change in the value of investment property	6	(2 569)	(15 989)	-	-
Other expenses	24	(55 109)	(40 295)	(47 556)	(36 160)
Operating profit (loss)		**(46 137)**	**(69 295)**	**(45 140)**	**(49 912)**
Finance income	23	2 456	3 572	3 036	3 602
Finance costs	23	(9 689)	(10 350)	(9 694)	(10 331)
Finance costs – net		**(7 233)**	**(6 778)**	**(6 658)**	**(6 729)**
Gain (loss) on investments in associates	31	436	264	-	-
Gain on decrease of ownership interest in associate	31	-	2 237	-	-
Profit (loss) before tax		**(52 934)**	**(73 572)**	**(51 798)**	**(56 641)**
Income tax	20	7 348	12 191	7 456	9 897
Profit (loss) for the year		**(45 586)**	**(61 381)**	**(44 342)**	**(46 744)**
Other comprehensive income and expense:					
Gain on revaluation of property, plant and equipment	4	532	2 005	93	127
Effect of deferred income tax	20	(81)	(301)	(14)	(19)
Other comprehensive income (expense)		**451**	**1 704**	**79**	**108**
Total comprehensive income (expense) for the year		**(45 135)**	**(59 677)**	**(44 263)**	**(46 636)**
Profit (loss) for the year attributable to:					
Owners of the Company		(45 932)	(54 488)	(44 342)	(46 744)
Non-controlling interest		346	(6 893)	-	-
		(45 586)	**(61 381)**	**(44 342)**	**(46 744)**
Total comprehensive income (expense) for the year attributable to:					
Owners of the Company		(45 547)	(53 456)	(44 263)	(46 636)
Non-controlling interest		412	(6 221)	-	-
		(45 135)	**(59 677)**	**(44 263)**	**(46 636)**
Basic and diluted earnings (deficit) per share (in LTL) attributable to owners of the Company	25	(0.076)	(0.090)	(0.073)	(0.077)

The notes on pages 9 to 44 are an integral part of these financial statements.

Statement of changes in equity

GROUP	Note	Attributable to owners of the Company							
		Share capital	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011		**603 945**	**2 068 003**	**60 574**	**271**	**897 623**	**3 630 416**	**133 601**	**3 764 017**
Comprehensive income									
Profit or loss		-	-	-	-	(54 488)	**(54 488)**	(6 893)	**(61 381)**
Other comprehensive income (expense)	14	-	1 032	-	-	-	**1 032**	672	**1 704**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(231 975)	-	-	231 975	-	-	-
Total comprehensive income and expense		**-**	**(230 943)**	**-**	**-**	**177 487**	**(53 456)**	**(6 221)**	**(59 677)**
Contributions by and distributions to owners									
Transfer to reserves		-	-	70	-	(70)	-	-	-
Reserves utilised		-	-	(179)	(271)	450	-	-	-
Dividends relating to 2010	26	-	-	-	-	(60 998)	**(60 998)**	-	**(60 998)**
Total contributions by and distributions to owners		**-**	**-**	**(109)**	**(271)**	**(60 618)**	**(60 998)**	**-**	**(60 998)**
Balance at 31 December 2011		**603 945**	**1 837 060**	**60 465**	**-**	**1 014 492**	**3 515 962**	**127 380**	**3 643 342**
Balance at 1 January 2012		**603 945**	**1 837 060**	**60 465**	**-**	**1 014 492**	**3 515 962**	**127 380**	**3 643 342**
Comprehensive income									
Profit or loss		-	-	-	-	(45 932)	**(45 932)**	346	**(45 586)**
Other comprehensive income (expense)	14	-	385	-	-	-	**385**	66	**451**
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(203 090)	-	-	203 090	-	-	-
Total comprehensive income and expense		**-**	**(202 705)**	**-**	**-**	**157 158**	**(45 547)**	**412**	**(45 135)**
Contributions by and distributions to owners									
Transfer to reserves		-	-	(70)	-	70	-	-	-
Reserves utilised		-	-	55	-	(55)	-	-	-
Dividends relating to 2011		-	-	-	-	(170 313)	**(170 313)**	(238)	**(170 551)**
Total contributions by and distributions to owners		**-**	**-**	**(15)**	**-**	**(170 298)**	**(170 313)**	**(238)**	**(170 551)**
Transactions with non-controlling interest	32	-	-	-	-	(124)	**(124)**	3 898	**3 774**
Total transactions with owners		**-**	**-**	**-**	**-**	**(124)**	**(124)**	**3 898**	**3 774**
Balance at 31 December 2012		**603 945**	**1 634 355**	**60 450**	**-**	**1 001 228**	**3 299 978**	**131 452**	**3 431 430**

COMPANY	Note	Share capital	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2011		**603 945**	**2 032 898**	**60 394**	**-**	**939 141**	**3 636 378**
Profit or loss		-	-	-	-	(46 744)	(46 744)
Other comprehensive income (expense)	14	-	108	-	-	-	108
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(229 030)	-	-	229 030	-
Total comprehensive income and expense		**-**	**(228 922)**	**-**	**-**	**182 286**	**(46 636)**
Transactions with owners		-	-	-	-	-	-
Dividends relating to 2010	26	-	-	-	-	(60 998)	60 998)
Total transactions with owners		**-**	**-**	**-**	**-**	**(60 998)**	**(60 998)**
Balance at 31 December 2011		**603 945**	**1 803 976**	**60 394**	**-**	**1 060 429**	**3 528 744**
Balance at 1 January 2012		**603 945**	**1 803 976**	**60 394**	**-**	**1 060 429**	**3 528 744**
Comprehensive income							
Profit or loss		-	-	-	-	(44 342)	(44 342)
Other comprehensive income (expense)	14	-	79	-	-	-	79
Transfers to retained earnings (transfer of depreciation, net of deferred income tax)	14	-	(198 810)	-	-	198 810	-
Total comprehensive income and expense		**-**	**(198 731)**	**-**	**-**	**154 468**	**(44 263)**
Dividends relating to 2011	26	**-**	**-**	**-**	**-**	**(170 313)**	**(170 313)**
Total transactions with owners		**-**	**-**	**-**	**-**	**(170 313)**	**(170 313)**
Balance at 31 December 2012		**603 945**	**1 605 245**	**60 394**	**-**	**1 044 584**	**3 314 168**

The notes on pages 9 to 44 are an integral part of these financial statements.

Statement of cash flows

	Note	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
Cash flows from operating activities					
Profit (loss) for the year		(45 586)	(61 381)	(44 342)	(46 744)
Adjustments for:					
– Income tax expense/(income)		(7 348)	(12 191)	(7 456)	(9 897)
– Depreciation and amortisation	4,5	409 722	433 824	399 510	423 289
– Impairment of property, plant and equipment	4	-	(245)	-	(245)
– Revaluation of property, plant and equipment	4	532	8 753	372	15
– Impairment of investment property	6	2 569	15 989	-	-
– Amortisation of grants	16	(2 582)	(2 283)	(2 582)	(2 283)
– Gain/(loss) on disposal and write-off of property, plant and equipment		15 818	15 016	16 062	15 179
– (Profit)/loss on investments in associates	31	(436)	(264)	-	-
– Gain on decrease of ownership interest in associate	31	-	(2 237)	-	-
– Dividend income	23	-	-	(712)	-
– Finance (income)	23	(2 456)	(3 572)	(2 324)	(3 602)
– Finance costs	23	9 689	10 350	9 694	10 331
Changes in working capital:					
– Trade and other receivables		(12 325)	6 108	(3 861)	7 969
– Inventories, advance amounts received, deferred charges and accrued income		5 086	3 151	3 701	2 946
– Trade and other payables, advance amounts received, accrued charges and deferred income		(1 946)	(33 281)	(7 164)	(32 095)
Cash generated from operating activities		**370 737**	**377 737**	**360 898**	**364 863**
– Income tax paid		(35 870)	(3 175)	(35 892)	(3 160)
Net cash generated from operating activities		**334 867**	**374 562**	**325 006**	**361 703**
Cash flows from investing activities					
– Purchase of property, plant and equipment and intangible assets		(322 320)	(313 592)	(316 222)	(309 611)
– Proceeds from sale of property, plant and equipment and investment		1 018	1 099	20	18
– Received grants	16	2 566	4 508	2 566	4 508
– Loan repayments received		394	335	394	335
– Increase in term deposits		2 000	500	-	5 500
– Dividends received		-	-	712	-
– Interest received		940	3 894	818	3 920
Net cash used in investing activities		**(315 402)**	**(303 256)**	**(311 712)**	**(295 330)**
Cash flows from financing activities					
– Proceeds from borrowings		189 904	230 302	189 904	230 302
– Repayments of borrowings		(118 504)	(298 098)	(118 504)	(298 098)
– Dividends paid to the Company's shareholders		(169 860)	(46 896)	(169 860)	(46 896)
– Dividends paid to non-controlling interest		(238)	-	-	-
– Interest paid		(10 048)	(10 137)	(10 053)	(10 262)
Net cash used in financing activities		**(108 746)**	**(124 829)**	**(108 513)**	**(124 954)**
(Decrease) in cash and cash equivalents		**(89 281)**	**(53 523)**	**(95 219)**	**(58 581)**
Cash and cash equivalents at beginning of the year	12	57 846	111 369	43 299	101 880
Cash and cash equivalents at end of the year	12	**(31 435)**	**57 846**	**(51 920)**	**43 299**

The notes on pages 9 to 44 are an integral part of these financial statements.

Notes to the financial statements

1. General information

Information about the Company

LESTO AB (hereinafter "the Company") is a public limited liability company registered in the Republic of Lithuania. The Company was registered with the Register of Legal Entities on 27 December 2010. The Company started its activities with effect from 1 January 2011. The shares of the Company have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange since 17 January 2011. The address of its registered office is:

Žvejų st. 14,
LT-09310 Vilnius,
Lithuania.

The Company was established following the reorganisation of Rytų Skirstomieji Tinklai AB (RST) and VST AB (VST) by way of merger. Under the terms and conditions of the reorganisation approved by the decisions of the extraordinary general meetings of shareholders of RST and VST dated 13 December 2010, a transfer-acceptance statement was signed on 31 December 2010, on the basis of which the Company took over all the assets, rights and obligations of RST and VST. The moment of the take-over of assets, rights and obligations by the Company was 1 January 2011, 00:00 am.

The core business of the Company includes electric power supply and distribution. The Company, which operates a medium and low voltage electricity distribution network, is a sole provider of electricity distribution service to the consumers in the entire territory of Lithuania.

On 5 October 2012, the National Control Commission for Prices and Energy established the following price caps of the electricity distribution service for 2013:

• electricity distribution service received via medium voltage network – 4.747 ct/kWh or 1.37 euro cents/kWh (2012 – 4.88 ct/kWh or 1.41 euro cents/kWh and 2011 – 4.89 ct/kWh or 1.42 euro cents/kWh);

• electricity distribution service received via low voltage network – 6.219 ct/kWh or 1.80 euro cents/kWh (2012 – 6.41 ct/kWh or 1.86 euro cents/kWh and 2011 – 6.39 ct/kWh or 1.85 euro cents/kWh).

On 5 October 2012, the National Control Commission for Prices and Energy established the price cap of 0.49 ct/kWh or 0.14 euro cents/kWh for 2013 on public electricity supply services (2012 – 0.44 ct/kWh or 0.13 euro cents/kWh and 2011 – 0.37 ct/kWh or 0.11 euro cents/kWh).

On 21 December 2012, the National Control Commission for Prices and Energy established the price cap of 34.104 ct/kWh (excl. VAT) for private customers who receive electric power via medium voltage network and the price cap of 40.323 ct/kWh (excl. VAT) for private customers who receive electric power via low voltage network on public electricity prices for 2013 (2012 – 31.24 ct/kWh, excl. VAT, 2011 – 30.25 ct/kWh, excl. VAT and 2012 – 37.65 ct/kWh, excl. VAT, 2011 – 36.64 ct/kWh, excl. VAT, respectively).

The Company's activities are regulated by the Lithuanian Law on Energy, Lithuanian Law on Electricity and other regulatory legislation.

The shareholders of the Company were as follows:

	At 31 December 2012		At 31 December 2011	
	Number of shares held	Ownership interest, %	Number of shares held	Ownership interest, %
Visagino Atominė Elektrinė UAB	499 026 209	82.63 %	499 026 209	82.63 %
E.ON Ruhrgas International AG (Germany)	71 040 473	11.76 %	71 040 473	11.76 %
Other shareholders	33 877 911	5.61 %	33 877 911	5.61 %
Total	603 944 593	100 %	603 944 593	100 %

As at 31 December 2012, Visagino Atominė Elektrinė UAB was the parent of the Company. Visagino Atominė Elektrinė UAB is wholly-owned by the Ministry of Economy of Lithuania (ultimate controlling party). Until 27 September 2012, Visagino Atominė Elektrinė UAB was wholly-owned by the Ministry of Energy of Lithuania (ultimate controlling party). In the implementation of the Resolution of 4 July 2012 of the Lithuanian Government, 4 067 163 632 state-owned ordinary registered intangible shares of Visagino Atominė Elektrinė UAB with the nominal value of LTL 1 each previously possessed by the Lithuanian Ministry of Energy by the right of trust and granting 100 per cent of the voting rights in the general meeting of shareholders of Visagino Atominė Elektrinė UAB were transferred to the Ministry of Economy on 27 September 2012.

All shares of the Company with the nominal value of LTL 1 each are ordinary shares and they were fully paid as at 31 December 2012 and 2011. The Company does not hold any shares other than those mentioned above, and its Articles of

Association do not provide for any restrictions on shares or special control rights of shareholders. The Company and its subsidiaries do not hold own shares.

The consolidated group

The consolidated group (hereinafter "the Group") consists of the Company, its subsidiaries and associates. The subsidiaries and associates are listed below.

			The Group's ownership interest (%)		
Subsidiary or associate	**Country**	**Year of acquisition**	**At 31 December 2012**	**At 31 December 2011**	**Profile of activities**
Elektros Tinklo Paslaugos UAB	Lithuania	2004	74.97 %	71.13 %	Power network engineering, construction, repair, maintenance and customer connection to the grid services
NT Valdos UAB (named Kruonio Investicijos UAB until 28 October 2010)	Lithuania	2010	57.30 %	57.93 %	Real estate management services
Technologijų ir Inovacijų Centras UAB	Lithuania	2010	24.94 %	24.94 %	IT and communication services
Public Institution Centre of Training for Energy Specialists (wholly-owned by Technologijų ir Inovacijų Centras UAB)	Lithuania	2010	24.94 %	24.94 %	Training services
Data Logistics Center UAB (wholly-owned by Technologijų ir Inovacijų Centras UAB from 28 December 2011; merged into Technologijų ir Inovacijų Centras UAB from 22 November 2012 and removed from the Register of Legal Entities – see Note 31)	Lithuania	2011		24.94 %	Telecommunication services
Tetas UAB (reclassified to assets held for sale from October 2012)	Lithuania	2005	38.87 %	38.87 %	Power network engineering, construction, repair, maintenance and customer connection to the grid services

Following the completion of reorganisation on 12 December 2011, NT Valdos UAB took over all the rights, obligations and assets of RYTRA UAB (previously, a wholly owned subsidiary). RYTRA UAB ceased its activities as a separate legal entity and was removed from the Register of Legal Entities. With effect from 12 December 2011, all the rights, obligations and assets of RYTRA UAB have been transferred to NT Valdos UAB.

In October 2012, the Company's Board passed a decision regarding the sale of its ownership interest in Tetas UAB. As a result of this decision, Tetas UAB was reclassified to assets held for sale – see Note 31.

The information about the contributions to share capitals of subsidiary companies in 2012 is disclosed in note 32.

As at 31 December 2012, the Group and the Company had 3 384 and 2 555 employees, respectively (31 December 2011: 3 564 and 2 890, respectively).

Approval of financial statements

The Company's management approved these financial statements on 15 March 2013. The Company's shareholders have a statutory right to approve or reject these financial statements and require from management to prepare a new set of financial statements.

2. Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment stated at revalued amount and investment property stated at fair value.

All amounts in these financial statements are presented in the litas and they have been rounded to the nearest thousand (in thousand LTL), unless otherwise stated.

The Company's and the Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

(a) New standards, amendments and interpretations to existing standards effective in 2012 and relevant to the Group and the Company

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

(b) New or revised standards and interpretations that are mandatory for the Group's and Company's accounting periods beginning on or after 1 January 2013 and which the Group and Company have not early adopted

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and EU effective for annual periods beginning on or after 1 July 2012). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group and the Company are currently assessing the impact of the amended standard on disclosures in their financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and EU effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured, using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Company and the Group does not expect the amendments to have any material effect on their financial statements.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and EU effective for annual periods beginning on or after 1 January 2014), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures The Company and the Group do not expect the amendments to have any material effect on its financial statements.

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

IFRS 13, Fair value measurement, (issued in May 2011 and EU effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Company and the Group are currently assessing the impact of the standard on their financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and EU effective for annual periods beginning on or after 1 January 2014), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Company is currently assessing the impact of the amended standard on their financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and EU effective for annual periods beginning on or after 1 January 2014). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, EU effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group and the Company expect the amended standard to change presentation of their financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, EU effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group and the Company are currently assessing the impact of the amended standard on their financial statements.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and EU effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group and the Company are considering the implications of the amendment, the impact on the Group and the Company and the timing of its adoption by the Group and by the Company.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and EU effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

2.2. Consolidation

(a) Subsidiaries

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

Subsidiaries are consolidated from the date from which effective control is transferred to the Company. They are de-consolidated from the date that control ceases.

All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies are eliminated.

(b) Business combinations between entities under common control

Business combinations between entities under common control are accounted for using the predecessor accounting. The difference between the consideration paid and the carrying amount of net assets acquired is recorded directly in other comprehensive income in the acquirer's financial statements.
When the transaction under common control does not meet the definition of a Business combination (e.g. mergers), it is accounted for as capital reorganisation, i.e. the consolidated financial statements will include the predecessor carrying amounts of acquired entity with comparative information presented for all periods, as if the entities had always been combined.

(c) Associates
An associate is an entity over which the Group has significant influence but no control. Significant influence generally accompanies a shareholding of between 20% to 50% of the voting rights. Investments in associates are carried using the equity method and initially recognised at cost. The Group's investment in associate includes goodwill (less accumulated impairment loss, if any) which is determined on the date of acquisition.

The Group's share of the post-acquisition net profit or loss is recognised in the statement of comprehensive income and the Group's share of the post-acquisition other comprehensive income is recognised in other comprehensive income. By these amounts the carrying amount of investments in associates is adjusted.

When the group's share of losses in associate equals or exceeds the acquisition cost of investment in associate (which includes any unguaranteed amounts receivable), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gain on transactions between the Group and its associates is eliminated to the extent of the Group's interest in the associate. Unrealised loss is also eliminated, unless it provides evidence of an impairment of assets transferred. The accounting policies of associates were amended to ensure their compliance with the Group's accounting policies.

2.3. Segment reporting

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

The Group and the Company have a single operating segment, i. e. supply and distribution of electric power. The Group and the Company are operating in a single geographical segment – Republic of Lithuania. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies presentation as those used for the preparation of the financial statements in accordance with IFRS, e.g. profit or loss, revenues and expenses, as well as total assets and liabilities.

2.4. 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'). Items in the consolidated financial statements are presented in the litas, which is the functional currency of the Company.

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

(b) Transactions and balances

Foreign currency transactions are accounted for using the exchange rates prevailing at the dates of transactions. 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.

2.5. Property, plant and equipment

Property, plant and equipment is shown at revalued amounts, based on periodic (with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date) valuations performed by independent valuers or by the Company's management, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to write off the revalued amount of asset to its residual value over the following estimated useful lives:

Administrative buildings (at the Group)	60 years
Buildings	15–50 years
Whereof:	
Engineering constructions	50 years
35 - 110 kV transformer substation constructions	35 years
6-10 kV electricity distribution constructions	35 years
10/0.4 kV transformer constructions	35 years
Communication and operation system constructions	15–25 years
Structures and machinery and electricity networks	5–50 years
Whereof:	

35 - 110 kV transformer substation equipment (excl. constructions)	30 years
6-10 kV distribution equipment (excl. constructions)	30 years
10/0.4 kV capacity transformers	30 years
35 kV cables and lines	45 years
0.4 - 10 kV cables and lines	15–40 years
35-110 kV capacity transformers	40 years
Communication and operation system equipment (excl. constructions)	5–45 years
Hydrotechnical structures and equipment	50 years
Other property, plant and equipment	3–50 years

The useful life of property, plant and equipment reclassified from investment property and used by the Group is 60 years.

The residual values and useful lives of property, plant and equipment are reviewed regularly and adjusted, if appropriate.

When assets are written off or otherwise disposed, its acquisition cost and related depreciation charges are derecognised from the financial statements, and gain or loss on such disposal is recognised in the statement of comprehensive income. Gain or loss on disposal of property, plant and equipment is determined as the difference between proceeds received and the book value of assets transferred. Upon disposal of revalued asset, the corresponding amount is transferred from revaluation reserve to retained earnings (deficit).

Construction in progress is reclassified to corresponding categories of property, plant and equipment when it is completed and ready for the intended use.

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.
Borrowing costs directly attributable to the acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time (longer than 1 year) to get ready for their intended use, are added to the cost of those assets.

2.6. Investment property

Investment property consists of the Company's and the Group's buildings and constructions held to earn rentals or for capital appreciation. Investment property is initially recognised at cost and subsequently measured at fair value. Deprecation is not calculated with respect to investment property. For the purpose of the financial statement, gain or losses arising from changes in the fair value are included in the statement of comprehensive income of the reporting period.

Transfers to and from investment property are made only when there is an evidence of change in an asset's use. Some properties may be partially occupied by the Company and the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Company and the Group can be sold separately, the Company and the Group account for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income is treated as investment property under IAS 40.

2.7. Intangible assets

(a) Computer software

Software licences acquired are capitalised with reference to costs attributable to the acquisition and preparation for use of that software. These costs are amortised over the estimated useful life (3 years).

(b) Other intangible assets

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

2.8. Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9. Financial assets

Financial assets are classified by the Group and the Company as financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables, and available-for-sale financial assets. Regular purchases and sales of financial assets are recognised on the trade date. Financial assets are initially recognised at fair value plus transaction costs, except for the financial assets at fair value through profit or loss.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables are initially recognised at cost (the fair value of consideration) and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when these assets are derecognised, impaired or amortised.

Impairment loss is recognised when there is objective evidence that the Group and the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the amount receivable is impaired. The carrying amount of the asset is reduced, and the amount of the loss is recognised in the income statement within 'other expenses'. When an amount receivable is uncollectible, it is written off against the allowance account for amounts receivable. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the statement of comprehensive income.

2.10. Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group and the Company do not use hedging accounting; therefore, derivative financial instruments are recognised at fair value through profit or loss. Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income within finance costs.

2.11. Investments in subsidiaries and associates in the Company's separate financial statements

Investments in subsidiaries and associates in the Company's separate financial statements are stated at cost less any impairment loss.

2.12. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out (FIFO) basis. Acquisition cost of inventories includes purchase price and related taxes (other than those subsequently recovered by the Company and the Group from tax authorities), transportation, handling and other costs directly associated with acquisition of inventories. The acquisition cost excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

2.13. Non-current assets held for sale

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

2.14. Term deposits

Term deposits are short-term (up to 1 year) highly liquid investments with maturities longer than 3 months. Term deposits are stated at amortised cost using the effective interest rate method.

2.15. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and other short-term highly liquid investments with maturities up to 3 months.

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 maturities up to 3 months, and bank overdrafts. In the statement of financial position bank overdrafts are included in current borrowings.

2.16. Trade payables

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

2.17. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

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

Borrowing costs that are attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time (longer than 1 year) to get ready for its intended use, are capitalised as part of the cost of that asset. Other borrowing costs are recognised as expenses in the statement of comprehensive income during the period when they are incurred.

2.18. Income tax

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

(a) Income tax

Current income tax assets and liabilities are recognised to the extent their recovery from or payment to tax authorities is probable. Income tax is determined using the tax rates (and laws) that have been enacted by the date of the statements of financial position.

The basic income tax rate in Lithuania was 15% in 2012 (2011: 15%).

(b) Deferred income tax

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

Deferred tax assets are reviewed at each date of the statement of financial position and if it is not probable that the Group and the Company will generate sufficient taxable profit to realise these assets, they are reduced to an amount which is likely to reduce the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realised or settled. Deferred tax assets and liabilities are offset only where they relate to income tax assessed by the same fiscal authority or where there is a right to offset current tax assets and current tax liabilities.

(c) Current income tax and deferred income tax

Current and deferred tax are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity or other comprehensive income or the tax arises from a business combination.

2.19. Employee benefits

(a) Social security contributions

The Group and the Company 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. Social security contributions are recognised as expenses on an accrual basis and are included within payroll expenses. The social insurance contributions are paid by the Company at a rate of 30.98 per cent.

(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 Group and the Company recognise termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan and agreements signed with employees without possibility of withdrawal or providing 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 recognised at present value discounted using market interest rate.

(c) Pension benefits to employees of retirement age

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws. A liability for such pension benefits is recognised in the statement of comprehensive income and it reflects the present value of these benefits at the date of the statement of financial position. The aforementioned non-current liability for pension benefits to employees at the date of the statement of financial position is determined with reference to actuary valuations using the projected relative 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 debentures 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.

2.20. Grants and subsidies

Government grants are recognised at their fair value where there is a reasonable assurance that the subsidy will be received and the Group and the Company will comply with all attached conditions. Government subsidies relating to purchase of property, plant and equipment are included in non-current liabilities in the statement of financial position and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

Government 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. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as income of the period in which it becomes receivable.

2.21. Operating lease

(a) Operating lease – where the Company and the Group are lessees

Lease is recognised as operating lease, when all the risks and rewards of ownership of the leased item remain with the lessor. Operating lease payments are recognised as expenses in the statement of comprehensive income on a straight-line basis over the lease term.

(b) Operating lease – where the Company and the Group are lessors

Lease is recognised as operating lease, when the lessor retains all the rewards and risks of ownership of the leased item. Payments received under operating leases are recognised as income on a straight-line basis over the lease term.

2.22. 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 finance costs.

2.23. Revenue recognition

Revenue of the Company and the Group comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's and Group's activities, net of value-added tax, returns, rebates and discounts. Revenue of the Group, in addition, is shown net of intercompany sales within the Group.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and the Company and when specific criteria have been met for each of the Company's and the Group's activities, as described below.

(a) Revenue from sale of electricity

During the period revenue from sale of electricity to private customers is recognised upon supply of electricity and receipt of payment for electricity supplied. An estimate of unbilled revenue is made to record electricity supplied, but not yet paid at the end of each reporting period.

Revenue from sale of electricity to business customers is recognised upon sale of electricity based on the actual usage of electricity which is determined according to the readings of electricity meters.

(b) Revenue from connection of new customers

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

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

(c) Revenue from sale of services

Revenue from sale of services is recognised during the period in which the services have been rendered with reference to the stage of completion of the specific transaction which is determined as a percentage of services actually rendered as compared to the total services to be rendered.

(d) Revenue from sale of goods

Revenue from sale of goods is recognised when all the risks relating to loss of or damage to goods and all other incremental costs arising as a result of events occurring after the goods have been delivered to the agreed place, have been transferred by the Group to the Company's buyer in accordance with the standard sale terms and conditions (INCOTERMS) agreed with the buyer, and the collection of the related receivable amounts is certain.

(e) Interest income

Interest income is recognised on accrual basis (using the effective interest rate method). Interest received is recorded in the statement of comprehensive income as finance income.

(f) Dividend income

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

2.24. 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.

2.25. Earnings per share

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

2.26. 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.

2.27. Events after the end of the reporting period

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

2.28. Intercompany offsetting

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

2.29. Comparable information

In the cash flow statement of 2012, receipts of grants related to purchases of property, plant and equipment have been presented separately. The comparative information has been reclassified accordingly.

3. Critical accounting estimates

Accounting estimates and judgements are regularly reviewed and evaluated with reference to past experience and other factors, such as the likelihood of future events, which is deemed to be reasonable under certain circumstances.

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

(a) Revaluation and impairment of property, plant and equipment

The Group and the Company account for property, plant and equipment at a revalued amount in accordance with International Accounting Standard No.16 'Property, plant and equipment'. The revalued amount of the majority of items of property, plant and equipment 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. When the carrying amount of property, plant and equipment stated in the statement of financial position is higher than its value in use or fair value, less selling expenses, the value of property, plant and equipment should be reduced. In other words, the value of property, plant and equipment recorded in the statement of financial position should be written down to higher of the two indicators: value of future benefits of assets expected from their use or value of proceeds expected to be received from disposal of assets.

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

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

According to Resolution No. 1142 of the Government of the Republic of Lithuania on the Methodology for the Determination of the Value of Assets used in the Licensed Activities of the Electricity Service Provider, the determination of the price cap of the electricity transmission service is to include the value of assets used in licensed activities of the service provider which is equal to net book value (carrying amount) of property, plant and equipment as at 31 December 2002 as increased by the amount of investments implemented and agreed with the Commission and reduced by the depreciation amount calculated pursuant to the procedure stipulated by the Lithuanian Law on Income Tax.

Due to the reasons specified above, the values of property, plant and equipment reported in these financial statements may materially differ from those that would be determined if the valuation of assets were performed by 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 and the Company's operations and on the shareholders' equity reported in the financial statements for the years 2011 and 2012.

Therefore, based on the management's decision, valuation of fair values of property, plant and equipment was not performed by external independent valuers as at 31 December 2011 and 2012 because of a significant reorganisation in the whole energy sector which took place in 2010 and 2011 and due to uncertainties related to a new electricity pricing model being developed and the date of its approval.

(b) Deferral of customer connection fees

Before 1 July 2009, the Company used to defer revenue received for the connection of new customers to the electricity network and recognise it as income over the period of 31 years, which is the average useful life of electricity equipment constructed by the Group and the Company for the purposes of connecting new customers. The Company is the only provider of electricity distribution service to the customers in the whole territory of Lithuania; therefore, management believes that the period of rendering services to customers is unlimited. As a result, the average useful life of electricity equipment constructed by the Group or the Company for customer connection was used as the best estimate of the period over which connection fees paid customers are recognised as income. For further details, see Note 15. With effect from 1 July 2009, connection fees received from customers are recognised as income upon the connection of customers.

(c) Accrued income

During the period 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. Unbilled revenue is estimated as 1/3 of payments for electricity received in December. Such estimate is based on the Company's historical experience and average term of settlement for electricity supplied to private customers. The management has estimated that the majority of private customers declare and make payment for the electricity used on approx. 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 quantity of electricity supplied to the distribution network (actual figure) and quantity of electricity declared by the customers (actual figure). The difference is multiplied by the average rate per 1 kWh (Note 10).

(d) Provision for impairment of accounts receivable

Impairment loss of accounts receivable was determined 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 indicators of significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the management 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.

Company's receivables are valued individually or in groups of similar receivables in order to measure impairment of those receivables. When performing valuation of individual receivables, the Company considers the information in possession or that it has access to from outside sources, such as market tendencies and prognoses, securitisation of receivables as well as events that may indicate to impairment of receivables (for example, breach of contracts, debtor's factual operating data etc.). If receivables are grouped for valuation purposes, the Company considers historical statistics. Every year the Company performs a check on whether the impairment rates used for valuation of receivable groups reflect the historical impairment of those receivables and approves the impairment rates for next year.
For further details, see Note 9.

(e) 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.

(f) 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 management is not aware of any circumstances that might result in a potential material liability in this respect.

(g) Usage of over declared electricity

With effect from the beginning of 2013 and 2012, the Company increased electricity prices. As a result, a part of private customers declared higher usage of electricity than their actual usage for the purpose of paying a lower price. The Company estimated the over declared amount based on the change in usage of electricity that was calculated as the difference between electricity received to the network during the restated period and electricity received to the network during the same period last year. This change in the electricity usage was applied to the amount of electricity used in December of 2011 and 2010, respectively and compared with the actual usage of electricity declared in December of 2012 and 2011, respectively. The difference estimated was recognised as advance amounts received (Note 18).

4. Property, plant, and equipment

Group	Note	Land	Buildings	Structures and machinery	Motor vehicles	Other property, plant and equipment	Construc-tion in progress	Total
At 31 December 2010								
Cost or revaluated amount		459	405 127	4 813 878	51 714	114 483	70 919	5 456 580
Accumulated depreciation		-	(19 814)	(400 781)	(2 461)	(22 541)	-	(445 597)
Net book amount at 1 January 2011		**459**	**385 313**	**4 413 097**	**49 253**	**91 942**	**70 919**	**5 010 983**
Additions		-	280	5 183	3 511	6 323	285 309	300 606
Revaluation		-	(213)	(2 069)	(2 119)	(2)	(2 345)	(6 748)
Disposals		-	(188)	(26)	(678)	(21)	-	(913)
Write-offs	24	-	(64)	(13 407)	(8)	(30)	(469)	(13 978)
Change in impairment		-	(73)	(132)	-	195	255	245
Reclassifications between groups, transferred to intangible assets and inventories		(6)	5 972	277 397	-	3 720	(292 623)	(5 540)
Transferred to investment property	6	-	(7 794)	(21 106)	-	-	-	(28 900)
Depreciation charge		-	(22 376)	(382 859)	(6 644)	(19 907)	-	(431 785)
Net book amount at 31 December 2011		**453**	**360 856**	**4 276 079**	**43 316**	**82 220**	**61 046**	**4 823 970**
At 31 December 2011								
Cost or revaluated amount		453	404 243	5 052 711	70 297	124 856	61 046	5 713 606
Accumulated depreciation		-	(43 387)	(776 632)	(26 981)	(42 635)	-	(889 636)
Net book amount at 1 January 2012		**453**	**360 856**	**4 276 079**	**43 316**	**82 220**	**61 046**	**4 823 970**
Additions		-	164	7 500	12 552	327	318 822	339 365
Disposals		-	(233)	(87)	(149)	(8)	-	(477)
Write-offs	24	-	(432)	(14 957)	-	(27)	(664)	(16 080)
Revaluation		-	280	(252)	12	(40)	-	-
Change in impairment								-
Reclassifications between groups, transferred to intangible assets and inventories		-	6 553	297 575	-	13 841	(317 991)	(22)
Transferred to investment property		-	(5 230)	(527)	-	-	-	(5 757)
In-kind contributions		-	1	92	(25)	(13)	-	55
Depreciation charge		-	(19 603)	(363 028)	(6 322)	(18 425)	-	(407 378)
Net book amount at 31 December 2012		**453**	**342 356**	**4 202 395**	**49 384**	**77 875**	**61 213**	**4 733 676**
At 31 December 2012								
Cost or revaluated amount		453	404 570	5 319 492	82 907	135 695	61 213	6 002 330
Accumulated depreciation		-	(62 214)	(1 117 097)	(31 523)	(58 270)	-	(1 268 654)
		453	**342 356**	**4 202 395**	**49 384**	**77 875**	**61 213**	**4 733 676**

Company		**Land**	**Buildings**	**Structures and machinery**	**Motor vehicles**	**Other property, plant and equipment**	**Construc-tion in progress**	**Total**
At 31 December 2010								
Cost or revaluated amount		279	299 480	4 782 826	526	110 092	68 401	5 261 604
Accumulated depreciation		-	(19 757)	(399 022)	(251)	(21 722)	-	(440 752)
Net book amount at 1 January 2011		**279**	**279 723**	**4 383 804**	**275**	**88 370**	**68 401**	**4 820 852**
Additions		-	247	5 066	13	6 183	284 051	295 560
Revaluation		-	(7)	115	6	(2)	-	112
Disposals		-	-	(26)	-	-	-	(26)
Write-offs	24	-	(64)	(13 409)	-	(11)	(469)	(13 953)
Change in impairment		-	(73)	(132)	-	195	255	245
Reclassifications between groups, transferred to intangible assets and inventories		(6)	5 987	277 172	-	3 720	(292 401)	(5 528)
Depreciation charge		-	(20 230)	(381 725)	(50)	(19 247)	-	(421 252)
Net book amount at 31 December 2011		**273**	**265 583**	**4 270 865**	**244**	**79 208**	**59 837**	**4 676 010**
At 31 December 2011								
Cost or revaluated amount		273	305 515	5 043 977	390	119 212	59 837	5 529 204
Accumulated depreciation		-	(39 932)	(773 112)	(146)	(40 004)	-	(853 194)
Net book amount at 1 January 2012		**273**	**265 583**	**4 270 865**	**244**	**79 208**	**59 837**	**4 676 010**
Additions		-	150	7 017	-	-	317 181	324 348
Revaluation		-	1	(252)	12	(40)	-	(279)
Disposals		-		(39)	-	(2)	-	(41)
Write-offs	24	-	(432)	(14 941)	-	(11)	(663)	(16 047)
Reclassifications between groups, transferred to intangible assets and inventories		-	6 634	297 477	-	13 880	(317 991)	-
In-kind contributions in subsidiaries		-	(57)	(802)	(219)	(189)	-	(1 267)
Depreciation charge		-	(17 625)	(361 816)	(7)	(17 739)	-	(397 187)
Net book amount at 31 December 2012		**273**	**254 254**	**4 197 509**	**30**	**75 107**	**58 364**	**4 585 537**
At 31 December 2012								
Cost or revaluated amount		273	311 656	5 309 959	118	130 223	58 364	5 810 593
Accumulated depreciation		-	(57 402)	(1 112 450)	(88)	(55 116)	-	(1 225 056)
		273	**254 254**	**4 197 509**	**30**	**75 107**	**58 364**	**4 585 537**

Write-offs mainly represent write-offs of structures and electricity network equipment which had been damaged or replaced during the reconstruction (repair).

Revaluation of property plant and equipment at 31 December 2012

In 2012, the revaluation was performed with respect to the Company‘s property, plant and equipment that were transferred as an in-kind contribution on 31 January 2012 to the subsidiary NT Valdos UAB. The revaluation was performed by independent property valuer Inreal UAB using comparative price method.

On 31 December 2012, the revaluation of buildings of NT Valdos UAB, the Company's subsidiary, was performed by independent property valuer Inreal UAB and the Company's property valuers using the comparative price (equivalent to selling price) method. Revaluation profit or loss was caused by the market dynamics (decreasing prices since the last valuation).

The summary of gain and loss on revaluation in 2012 is presented below:

Group	**Recognised in other comprehensive income and revaluation reserve**	**Recognised in profit or loss**	**Total revaluation gain (loss)**
Increase (decrease) in carrying amount	532	(532)	-
Company			
Increase (decrease) in carrying amount	93	(372)	(279)

Revaluation of property plant and equipment at 31 December 2011

On 31 December 2011, revaluation was performed with respect to the Company's property, plant and equipment that were contributed to subsidiary Elektros Tinklo Paslaugos UAB on 1 January 2012 (see Note 32). The valuation was performed by independent property valuer Inreal UAB using the method involving elements of both replacement cost and comparative price methods.

Also, on 31 December 2011, revaluation was performed with respect to the Group's assets in subsidiaries Rytra UAB and NT Valdos UAB; the valuation of real estate was performed by Inreal UAB using the comparative price method and the valuation of motor vehicles was performed by Oberhaus UAB. Revaluation profit or loss was caused by the market dynamics (decreasing prices since the last valuation).

The summary of gain and loss on revaluation in 2011 is presented below:

Group	**Recognised in other comprehensive income and revaluation reserve**	**Recognised in profit or loss**	**Total revaluation gain (loss)**
Increase (decrease) in carrying amount	2 005	(8 753)	(6 748)
Company			
Increase (decrease) in carrying amount	127	(15)	112

If no revaluation had been carried out for property, plant and equipment, the net book values of the Group's and the Company's property, plant and equipment would have been as follows as at 31 December 2012 and 2011:

Group	**Land**	**Buildings**	**Structures and machinery**	**Motor vehicles**	**Other property, plant and equipment**	**Construc-tion in progress**	**Total**
At 31 December 2012	556	242 274	2 548 812	51 254	76 275	61 302	**2 980 473**
At 31 December 2011	556	258 467	2 418 158	45 749	78 995	61 173	**2 863 098**

Company	**Land**	**Buildings**	**Structures and machinery**	**Motor vehicles**	**Other property, plant and equipment**	**Construc-tion in progress**	**Total**
At 31 December 2012	376	159 131	2 535 968	21	73 506	58 452	**2 827 454**
At 31 December 2011	376	163 924	2 408 207	552	75 983	59 963	**2 709 005**

5. Intangible assets

Group	Note	Patents and licenses	Computer software	Other intangible assets	Projects in progress	Total
At 31 December 2010						
Cost		-	20 450	106	-	20 556
Accumulated depreciation		-	(15 591)	(94)	-	(15 685)
Net book amount at 1 January 2011		**-**	**4 859**	**12**	**-**	**4 871**
Additions		-	730	20	392	1 142
Transferred from property, plant and equipment		69	1 571	114	-	1 754
Amortisation charge		(2)	(2 027)	(10)	-	(2 039)
Net book amount at 31 December 2011		**67**	**5 133**	**136**	**392**	**5 728**
At 31 December 2011						
Cost		69	10 384	161	392	11 006
Accumulated depreciation		(2)	(5 251)	(25)	-	(5 278)
Net book amount at 1 January 2012		**67**	**5 133**	**136**	**392**	**5 728**
Additions		-	13	10	3 650	3 673
Transferred from property, plant and equipment		-	1 545	-	(1 545)	-
Amortisation charge		(23)	(2 289)	(32)	-	(2 344)
Net book amount at 31 December 2012		**44**	**4 402**	**114**	**2 497**	**7 057**
At 31 December 2012						
Cost		69	11 762	171	2 497	14 499
Accumulated depreciation		(25)	(7 360)	(57)	-	(7 442)
		44	**4 402**	**114**	**2 497**	**7 057**

Company	Patents and licenses	Computer software	Other intangible assets	Projects in progress	Total
At 31 December 2010					
Cost	-	20 438	106	-	20 544
Accumulated depreciation	-	(15 591)	(94)	-	(15 685)
Net book amount at 1 January 2011	**-**	**4 847**	**12**	**-**	**4 859**
Additions	-	684	20	392	1 096
Transferred from property, plant and equipment	69	1 571	114	-	1 754
Amortisation charge	(2)	(2 025)	(10)	-	(2 037)
Net book amount at 31 December 2011	**67**	**5 077**	**136**	**392**	**5 672**
At 31 December 2011					
Cost	69	10 326	161	392	10 948
Accumulated depreciation	(2)	(5 249)	(25)	-	(5 276)
Net book amount at 1 January 2012	**67**	**5 077**	**136**	**392**	**5 672**
Additions	-	-	-	3 625	3 625
Transferred from property, plant and equipment	-	1 545	-	(1 545)	-
Amortisation charge	(23)	(2 270)	(30)	-	(2 323)
Net book amount at 31 December 2012	**44**	**4 352**	**106**	**2 472**	**6 974**
At 31 December 2012					
Cost	69	11 685	161	2 472	14 387
Accumulated depreciation	(25)	(7 333)	(55)	-	(7 413)
	44	**4 352**	**106**	**2 472**	**6 974**

6. Investment property

The Group's investment property comprises buildings and structures of the subsidiary NT Valdos UAB that are not used for the Group's own needs but are held for rental yields.

The summary of movement on investment property account is presented below:

Group	**Investment property**
At 1 January 2011	**122 677**
Changes in fair value (recognised through profit or loss)	(15 989)
Transferred from property, plant and equipment after the change in an asset's use	28 900
At 31 December 2011	**135 588**
At 1 January 2012	**135 588**
Additions	3 725
Disposals	(405)
Changes in fair value (recognised through profit or loss)	(2 569)
Transferred to assets held for sale	(366)
Transferred from property, plant and equipment after the change in an asset's use	5 757
At 31 December 2012	**141 730**

On 31 December 2012, the revaluation of real estate of NT Valdos UAB was performed by independent property valuer Inreal UAB and the Company's property valuers using the comparative price (equivalent to selling price) method. On 27 December 2011, the revaluation of real estate of NT Valdos UAB was performed by independent property valuer Inreal UAB and on 31 December 2011 by the Company's property valuers using the comparative price (equivalent to selling price) method. In both years the comparative prices were obtained from the active market.

7. Non-current receivables

	Group		**Company**	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Fair value of mortgage loans granted	3 809	3 209	3 908	3 209
Carrying amount of mortgage loans granted	2 502	2 707	2 502	2 707

Non-current receivables consist of mortgage loans which were granted to individuals for a period of 25 years. The mortgage loans are repayable in instalments till 2027. These loans are secured over residential housing property. In 2012, the current portion of these loans amounted to LTL 319 thousand (2011: LTL 338 thousand) and was accounted for under trade and other receivables (Note 9). These loans were issued at a fixed interest rate ranging from 0.1 to 1 per cent. Fair values of mortgage loans are presented below:

	Group		**Company**	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Non-current portion of mortgage loans granted	2 183	2 369	2 183	2 369

Fair value of mortgage loans was estimated based on cash flows discounted at a rate of 3.03% (31 December 2011: 4.66%). The weighted average effective interest rate used by the Group and the Company for discounting of mortgage loans was 7.61% as at 31 December 2012 (2011: 7.59%).

8. Inventories

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Raw materials and spare parts	12 328	12 870	4 798	10 327
Electricity meters	2 508	3 013	2 508	3 013
Fuel	248	250	103	19
Other	2 027	3 150	1 386	2 911
Less: write-down of inventories	(7 130)	(4 879)	(3 895)	(4 453)
Total	**9 981**	**14 404**	**4 900**	**11 817**

The Group's and the Company's inventories recognised as expenses during the year amounted to LTL 55 375 thousand and LTL 19 231 thousand, respectively as at 31 December 2012 (31 December 2011: LTL 53 710 thousand and LTL 20 814 thousand, respectively). These expenses were included in repairs and maintenance expenses in the statement of comprehensive income.

Movement on inventory write-down account in 2012 and 2011 was as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
Inventory write-down at 1 January 2012	4 879	4 498	4 453	4 194
Increase in inventory write-down during the year	2 855	2 972	46	2 850
Reversal of inventory write-down	(604)	(2 591)	(604)	(2 591)
Inventory write-down at 31 December 2012	**7 130**	**4 879**	**3 895**	**4 453**

Write-down with respect to certain inventories was reversed as inventories were written off or utilised.

9. Trade and other receivables

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**2011 12 31**
Trade receivables	199 207	193 369	197 045	192 828
Trade and other receivables from related parties (Note 29)	21 185	20 658	17 565	15 730
Current portion of mortgage loans	319	338	319	338
Other receivables	4 730	10 290	3 572	9 981
Less: impairment of doubtful receivables	(34 530)	(40 427)	(34 205)	(40 399)
Total	**190 911**	**184 228**	**184 296**	**178 478**

As at 31 December 2012 part of assets under other receivables did not meet the criteria of financial instruments. These amounts for the Group and the Company were LTL 2 524 thousand (as at 31 December 2011 – LTL 7 305 thousand and 7 392 thousand, respectively).

The fair values of trade and other receivables approximate their carrying amounts.

Impairment provision for trade receivables is recognised when it is probable that the debtor will enter bankruptcy, fails to fulfil obligations or the payment is overdue for more than 2 months.

Current portion of mortgage loans in explanatory note are presented at discounted value and are not over due.

The Group's and the Company's trade and other receivables not classified as doubtful included as follows:

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Not past due	172 205	164 492	168 917	160 265
Past due up to 1 month	12 049	15 056	9 003	14 144
Past due from 1 to 2 months	3 112	1 933	2 853	1 742
Past due longer than 2 months	3 204	2 409	3 204	1 989
Total	**190 570**	**183 890**	**183 977**	**178 140**

For the ageing analysis of trade and other receivables from related parties refer to Note 29.

Trade receivables are non-interest bearing and are normally settled with the term of 25 to 35 days.

The ageing of the Group's and the Company's trade and other receivables that were provided for is as follows:

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Past due up to 3 months	3 747	1 219	3 698	1 219
Past due from 3 to 6 months	1 593	225	1 487	224
Past due from 6 to 12 months	4 632	1 363	4 471	1 362
Past due longer than 1 year	24 580	37 620	24 549	37 594
Total	**34 552**	**40 427**	**34 205**	**40 399**

Movements on the Group's provision for impairment of trade and other receivables in 2012 and 2011 were as follows:

Balance at 1 January 2011	**43 852**
Provision for impairment	2 145
Written off	(5 570)
Balance at 31 December 2011	**40 427**
Provision for impairment	7 988
Written off	(13 885)
Balance at 31 December 2012	**34 530**

Movements on the Company's provision for impairment of trade and other receivables in 2012 and 2011 were as follows:

Balance at 1 January 2011	**43 794**
Provision for impairment	2 148
Written off	(5 543)
Balance at 31 December 2011	**40 399**
Provision for impairment	7 691
Written off	(13 885)
Balance at 31 December 2012	**34 205**

10. Prepayments, deferred charges and accrued income

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Unbilled revenue from electricity supplied	21 593	23 750	21 593	23 750
Prepayments for services	44	80	6	51
Other prepayments, deferred charges, other accrued income	366	400	39	120
	22 003	**24 230**	**21 638**	**23 921**

11. Derivative financial instruments

In order to manage interest rate risk, the Group and the Company use derivative financial instruments. To this end, the Company entered into interest rate swap agreements enabling it to convert floating interest flows into fixed.

As at 31 December 2012, the nominal value of interest rate swaps amounted to LTL 69 056 thousand (31 December 2011: LTL 69 056 thousand).

As at 31 December 2012 and 2011, the fair value of interest rate swaps comprised the liability of LTL 1 558 thousand and LTL 1 511 thousand, respectively.

12. Cash and cash equivalents, and term deposits

Cash and cash equivalents

	Group		Company	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Term deposits with maturity less than 3 months	-	1 500	-	-
Cash at bank	30 066	56 870	9 581	44 161
Cash in transit	-	338	-	-
	30 066	**58 708**	**9 581**	**44 161**

Presented below is the analysis of the credit quality of balances of cash and cash equivalents based on ratings established by the rating agency Moody's.

	Group		Company	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Aa2	-	5 557	-	1 909
Aa3	5 627	426	5 612	426
A1	7 254	7 026	1 991	33
A2	17 180	45 361	1 973	41 793
Baa1	2	-	2	-
Baa2	3	-	3	-
Not assigned	-	338	-	-
	30 066	**58 708**	**9 581**	**44 161**

Cash and cash equivalents include the following for the purpose of the cash flow statement:

	Group		Company	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Cash and cash equivalents	30 066	58 708	9 581	44 161
Bank overdraft (Note 19)	(61 501)	(862)	(61 501)	(862)
	(31 435)	**57 846**	**(51 920)**	**43 299**

Term deposits

As at 31 December 2012, the Group had a short-term deposit at a bank awarded an A2 credit rating according to Moody's rating agency for the amount of LTL 3 000 thousand with maturity longer than 3 months and subject to weighted interest rate of 1.16% (31 December 2011: LTL 5 000 thousand, weighted interest rate 1.26%, from which LTL 2 000 thousand were deposited at a bank with a credit rating Aa2 and LTL 3 000 thousand at a bank with credit rating A2, both according to Moody's rating agency).

13. Share capital

As at 31 December 2012, the Company's authorised share capital comprised 603 944 593 (2011: 603 944 593) ordinary registered shares with the nominal value of LTL 1 each. All the shares are fully paid. The number of shares did not change during 2012 and 2011.

14. Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. As at 31 December 2012 and 2011, the legal reserve was fully established.

Revaluation reserve

Revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. This reserve cannot be used to cover losses.

Group	Note	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 1 January 2011		**2 433 149**	**(365 146)**	**2 068 003**
Gains (losses) on revaluation of property, plant and equipment during the year	4	2 005	(301)	1 704
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(272 408)	40 433	(231 975)
Non-controlling interests' share of reserve of subsidiaries		(790)	118	(672)
Balance at 31 December 2011		**2 161 956**	**(324 896)**	**1 837 060**
				-
Balance at 1 January 2012		**2 161 956**	**(324 896)**	**1 837 060**
Gains (losses) on revaluation of property, plant and equipment during the year	4	532	(81)	451
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(238 931)	35 841	(203 090)
Non-controlling interests' share of reserve of subsidiaries		(78)	12	(66)
Balance at 31 December 2012		**1 923 479**	**(289 124)**	**1 634 355**

Company		**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 1 January 2011		**2 391 679**	**(358 781)**	**2 032 898**
Gains (losses) on revaluation of property, plant and equipment during the year	4	127	(19)	108
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(269 447)	40 417	(229 030)
Balance at 31 December 2011		**2 122 359**	**(318 383)**	**1 803 976**
				-
Balance at 1 January 2012		**2 122 359**	**(318 383)**	**1 803 976**
Gains (losses) on revaluation of property, plant and equipment during the year	4	93	(14)	79
Transfer from revaluation reserve to retained earnings during the year (depreciation, write-offs, disposals)		(233 894)	35 084	(198 810)
Balance at 31 December 2012		**1 888 558**	**(283 313)**	**1 605 245**

Other reserves

Other reserves are formed based on the decision of shareholders and can be redistributed on the distribution of the next year's profit.

15. Deferred income

	Group/Company	
	31 Dec 2012	**31 Dec 2011**
Deferred income from customer connection fees	317 861	332 890
Deferred income from public service obligations (PSO) electricity sales	1 153	1 196
	319 014	**334 086**

Deferred income from customer connection fees

	31 Dec 2012	**31 Dec 2011**
Opening balance	**347 919**	**362 949**
Recognised as income in the statement of comprehensive income	(15 029)	(15 030)
Closing balance	**332 890**	**347 919**

	31 Dec 2012	**31 Dec 2011**
Non-current portion	317 861	332 890
Current portion (Note 18)	15 029	15 029
Total	**332 890**	**347 919**

With effect from 1 July 2009, all income from the connection of new customers to electricity equipment and from dislocation of electricity lines are recognised in the period in which works are performed. Fees that were received before 1 July 2009 were recognised as deferred income and continue to be recognised as income over an average useful life of non-current assets concerned.

16. Grants and subsidies

Movements on the Group's and the Company's grants and subsidies in 2012 and 2011 were as follows:

	Group/Company
Balance at 31 December 2010	**50 867**
Received	4 508
Reversed	(6 722)
Amortisation charge	(2 283)
Balance at 31 December 2011	**46 370**
Received	2 566
Reversed	(414)
Amortisation charge	(2 582)
Balance at 31 December 2012	**45 940**

Grants and subsidies consist of funds received from the EU Funds for the purpose of acquisition and construction of structures and electricity networks and of property, plant and equipment received at no consideration from the Government of the Republic of Lithuania.

Amortisation of grants is accounted for under depreciation and amortisation in the statement of comprehensive income and depreciation charges of the related property, plant and equipment are reduced by their amount.

17. Trade and other payables

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Trade payables	154 765	142 770	134 215	134 180
Trade payables to subsidiaries (Note 29)	-	-	17 172	10 357
Trade payables to related parties (Note 29)	158 901	135 357	158 427	134 535
Total trade payables	**313 666**	**278 127**	**309 814**	**279 072**
Taxes (other than income tax)	1 982	8 192	557	5 861
Employment-related liabilities	4 195	4 169	3 248	3 452
Other current liabilities	10 381	9 931	10 381	9 895
Total other payables	**16 558**	**22 292**	**14 186**	**19 208**
Trade and other payables	**330 224**	**300 419**	**324 000**	**298 280**

As at 31 December 2012 part of liabilities under other payables did not meet the criteria of financial liabilities. These amounts for the Group and the Company were LTL 7 498 thousand and LTL 5 124 thousand, respectively (as at 31 December 2011 – LTL 13 682 thousand and 10 598 thousand, respectively).

Trade payables

Terms and conditions of the above financial liabilities:

– Trade payables are non-interest bearing and are normally settled within the term of 60 days.
– Other payables are non-interest bearing and have an average settlement term of 6 months.
– Interest payable is normally paid on a quarterly basis during the financial year.
– Terms and conditions applicable to amounts payable to related parties are described in Note 29.

18. Advance amounts received, accrued charges and deferred income

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Accrued charges	19 459	16 161	15 084	14 171
Current portion of deferred income from connection of new customers (Note 15)	15 029	15 029	15 029	15 029
Current portion of other deferred income	138	7 697	43	7 697
Advances received	49 860	49 748	49 566	49 566
	84 486	**88 635**	**79 722**	**86 463**

As at 31 December 2012, advance amounts received mostly comprise advances received for the connection of new customers and the effects of over declared electricity amounting to LTL 7 559 thousand (31 December 2011: effects of over declared electricity amounted to LTL 10 177 thousand) resulting from increased prices for electricity with effect from 1 January 2013. The over declared amount as at 31 December 2012 was accounted for within advance amounts received.

19. Borrowings

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Non-current borrowings				
Borrowings from banks	395 647	325 362	395 647	325 362
Current borrowings				
Bank overdraft	61 501	862	61 501	862
Borrowings from banks	119 619	118 504	119 619	118 504
	181 120	119 366	181 120	119 366
Total borrowings	**576 767**	**444 728**	**576 767**	**444 728**

All borrowings of the Group and the Company bear variable interest rate with repricing period up to 6 months. No assets have been provided as collateral for borrowings.

The maturity of non-current borrowings was as follows:

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Within 1 to 2 years	218 386	119 619	218 386	119 619
Within 2 to 5 years	171 809	194 839	171 809	194 839
After 5 years	5 452	10 904	5 452	10 904
	395 647	**325 362**	**395 647**	**325 362**

The Company did not comply with a single debt covenant of one loan, relating to cash account turnover. However, this loan is to be returned during first quarter of 2013 and the entire amount is classified under current liabilities in the Statement of financial position.

The average interest rates at the date of preparation of the financial statements were as follows:

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Bank overdraft	0.84	0.94	0.84	0.94
Borrowings from banks	1.02	2.28	1.02	2.28

The carrying amounts of the Group's and the Company's borrowings are denominated in the following currencies:

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
LTL	61 501	862	61 501	862
EUR	515 266	443 866	515 266	443 866
	576 767	**444 728**	**576 767**	**444 728**

The Group and the Company have the following undrawn borrowing facilities:

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Borrowings bearing a variable interest rate and maturing within one year	67 499	35 390	67 499	35 390

20. Deferred income tax

The Group's and the Company's income tax expense (income) for 2012 and 2011 comprised as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
Current year income tax	24 058	28 804	23 822	28 803
Adjustment of previous year income tax	6	-	6	-
Deferred income tax (income)/expense	(31 412)	(40 995)	(31 284)	(38 700)
	(7 348)	**(12 191)**	**(7 456)**	**(9 897)**

Deferred income tax assets and deferred income tax liability 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. The amounts offset are presented in the table below:

Group **Deferred income tax assets**	New customer connection income	Impairment of assets	Accrued charges	Tax loss carry-forwards	Tax goodwill arising on business exchange transaction	Electricity overdeclaration	Total
Balance at 1 January 2011	**11 905**	**6 740**	**2 592**	**817**	**126**	**-**	**22 180**
Recognised through profit (loss)	(586)	723	(567)	1 210	(34)	1 526	2 272
Balance at 31 December 2011	**11 319**	**7 463**	**2 025**	**2 027**	**92**	**1 526**	**24 452**
Recognised through profit (loss)	(587)	(1 043)	89	617	(33)	(392)	(1 349)
Balance at 31 December 2012	**10 732**	**6 420**	**2 114**	**2 644**	**59**	**1 134**	**23 103**

Deferred income tax liabilities	Revaluation of PP&E and differences due to different depreciation rates	Investment relief	Total
Balance at 1 January 2011	**(434 680)**	**20 007)**	**(454 687)**
Recognised through profit (loss)	36 788	1 930	38 718
Recognised in other comprehensive income	(301)	-	(301)
Balance at 31 December 2011	**(398 193)**	**18 077)**	**16 270)**
Recognised through profit (loss)	31 023	1 738	32 761
Recognised in other comprehensive income	(81)	-	(81)
Balance at 31 December 2012	**(367 251)**	**16 339)**	**(383 590)**

Company **Deferred income tax assets**	New customer connection income	Impairment of assets	Accrued charges	Over declaration of electricity	Total
Balance at 1 January 2011	**11 905**	**6 702**	**2 354**	**-**	**20 961**
Recognised through profit (loss)	(586)	712	(629)	1 526	1 023
Balance at 31 December 2011	**11 319**	**7 414**	**1 725**	**1 526**	**21 984**
Recognised through profit (loss)	(587)	(1 373)	(61)	(392)	(2 413)
Balance at 31 December 2012	**10 732**	**6 041**	**1 664**	**1 134**	**19 571**

Deferred income tax liabilities	Revaluation of PP&E and differences due to different depreciation rates	Investment relief	Total
Balance at 1 January 2011	**(429 278)**	**(20 007)**	**(449 285)**
Recognised through profit (loss)	35 747	1 930	37 677
Recognised in other comprehensive income	(19)	-	(19)
Balance at 31 December 2011	**(393 550)**	**(18 077)**	**(411 627)**
Recognised through profit (loss)	31 959	1 738	33 697
Recognised in other comprehensive income	(14)	-	(14)
Balance at 31 December 2012	**(361 605)**	**(16 339)**	**(377 944)**

The amount of income tax expenses reported in the statement of comprehensive income attributable to the operating result for the year can be reconciled against the amount of income tax expenses that would result from applying the statutory income tax rate of 15 per cent to profit before tax:

	Group		Company	
	2012	**2011**	**2012**	**2011**
Profit before tax	(52 934)	(73 572)	(51 798)	(56 641)
Income tax at a rate of 15% (2011: 15%)	(7 940)	(11 036)	(7 770)	(8 496)
Expenses not deductible for tax purposes	2 856	752	2 585	205
Income not subject to tax	(2 264)	(1 813)	(2 271)	(1 606)
Tax losses carried forward for which no deferred income tax asset was recognised in the previous periods	-	(94)	-	-
	(7 348)	**(12 191)**	**(7 456)**	**(9 897)**

21. Revenue

	Group		Company	
	2012	**2011**	**2012**	**2011**
Electricity transmission and distribution	2 180 701	2 154 846	2 184 277	2 157 715
Connection of new customers	45 141	45 892	45 156	45 894
Lease of premises and motor vehicles	17 030	5 298	-	-
Other income	40 781	39 448	23 687	12 711
	2 283 653	**2 245 484**	**2 253 120**	**2 216 320**

The Group companies render transport vehicles and real estate lease services by entering into operating lease agreements for a certain period of time that might range from a few hours to a few years. The lease income is recognised through the income statement on a proportional basis over the period of the lease agreement.

22. Employee benefits and related social security contributions

	Group		Company	
	2012	**2011**	**2012**	**2011**
Wages and salaries	108 659	106 627	88 103	90 566
Termination benefits	2 509	1 543	2 287	1 205
Social security contributions	34 499	33 796	28 055	28 714
Vacation accrual	11 440	11 329	9 511	9 527
Social security contributions on vacation accrual	3 547	3 508	2 945	2 947
	160 654	**156 803**	**130 901**	**132 959**

23. Finance income/ (costs)

	Group		Company	
	2012	**2011**	**2012**	**2011**
Finance income				
Late-payment interest on trade receivables	1 318	971	1 308	1 103
Interest income from credit institutions	859	2 101	737	1 999
Interest income on loans granted	279	500	279	500
Dividends income	-	-	712	-
	2 456	**3 572**	**3 036**	**3 602**
Finance (costs)				
Interest paid on loans	(9 609)	(10 066)	(9 599)	(10 048)

Derivates – interest rate swaps	(47)	(282)	(47)	(282)
Foreign exchange (loss)	(8)	(2)		(1)
Other (costs)	(25)	-	(48)	-
	(9 689)	**(10 350)**	**(9 694)**	**(10 331)**
Finance income (costs), net	**(7 233)**	**(6 778)**	**(6 658)**	**(6 729)**

24. Other expenses

	Group		Company	
	2012	**2011**	**2012**	**2011**
Finance income				
Write-offs of property, plant and equipment (Note 4)	16 080	13 978	16 047	13 953
Business trips	284	220	215	181
Consultation services	788	1 105	362	787
Personnel development	902	833	742	721
Stationery	335	343	254	273
Public relations and marketing	1 997	1 409	1 789	1 325
Asset management costs	295	460	295	460
Customer service costs	7 943	8 317	7 901	8 266
Checking of equipment and devices	928	776	933	733
Taxes (other than income tax)	9 693	7 825	7 561	5 785
Impairment provision for accounts receivable (Note 9)	7 988	2 145	7 691	2 148
Payments under the collective agreement and other additional payments	642	685	687	588
Insurance	472	778	198	160
Charges and dues	166	229	164	227
Medical care	150	174	115	127
Other expenses	6 446	1 018	2 602	426
	55 109	**40 295**	**47 556**	**36 160**

25. Basic and diluted earnings per share

<u>Basic</u>

Basic earnings per share are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2012	**2011**	**2012**	**2011**
Net profit (loss) attributable to shareholders of the Company (in LTL thousands)	(45 932)	(54 488)	(44 342)	(46 744)
Weighted average number of shares (thousands)	603 945	603 945	603 945	603 945
Basic earnings (loss) per share (in LTL per share)	**(0.076)**	**(0.090)**	**(0.073)**	**(0.077)**

<u>Diluted</u>

Diluted earnings (loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2012, the Company had no dilutive ordinary shares.

26. Dividends per share

Approved dividends per share were as follows:

	2012	2011
Approved dividends (in LTL thousand)	170 313	60 998
Weighted average number of shares (thousands)	603 945	603 945
Approved dividends per share (in LTL per share)	**0.282**	**0.101**

During the Ordinary Meeting of Shareholders held on 27 April 2012, the Company's shareholders made a decision to distribute dividends of LTL 170 313 thousand.

27. Financial risk management

Credit risk

There is no significant credit risk concentration in the Group and in the Company. Credit risk or the risk of counterparties defaulting, is controlled by the application of credit terms and monitoring procedures.

The Group does issue guarantees to secure the fulfilment of obligations of third parties. The maximum exposure to credit risk is represented by the carrying amount of each item of financial asset. Therefore, the management believes that the maximum exposure to credit risk is equal to the amount of mortgage loans, loans, trade and other receivables and cash at bank less recognised impairment loss at the date of the statement of financial position.

Because of the specific nature of the Group's and the Company's operations no collateral is required from customers.

Pursuant to the Articles of Association free liquid funds can be invested only in low-risk money market instruments and debts securities, i.e. term deposits, bonds of reliable financial institutions, securities of Governments. The priority objective of investing activities is to ensure the security of funds and maximise return on investments in pursuance of this objective. Funds can be invested only in debt financial instruments of financial institutions and states assigned with a long-term borrowing rating not lower than "A-"according to the rating agency Fitch Ratings (or a corresponding rating of other rating agencies).

As at 31 December 2012, the maximum exposure to credit risk of the Group and the Company amounted to LTL 245 229 thousand and LTL 215 129 thousand, respectively (31 December 2011: LTL 266 750 thousand and LTL 241 366 thousand, respectively).

Interest rate risk

The Group's and the Company's income and operating cash flows are substantially independent of changes in market interest rates.

All the Group's and the Company's borrowings bear variable interest rate linked with EURIBOR, EUR LIBOR and VILIBOR and expose the Group and the Company to the interest rate risk.

The Group and the Company manage the interest rate risk by entering into interest swap agreements by changing a variable interest rate into a fixed interest rate. The Company takes long-term borrowings from banks with the variable interest rate and concludes respective interest rate swap agreements for changing the variable interest rate to fixed interest rate thus ensuring lower fixed interest rates as compared to those which would have been applicable if the loan agreements with the fixed rate were directly concluded with the banks.

An interest rate swap agreement is a bilateral agreement according to which the parties undertake to swap the cash flows of interest calculated for the period agreed when entering into transaction on the agreed amount. Usually, according to this agreement the cash flows of one financial instrument (either with fixed or variable interest rate) are exchanged with the cash flows from other financial instrument (either with fixed or variable interest rate). In such transaction both parties can pay the calculated amount of interest or one of the parties can pay the difference between the interest amounts.

Interest rate swap agreements are concluded when the increase in the interest base-rate is projected in the future and hence the interest payable by the Group and the Company at the variable interest rate could increase respectively, or when the decrease in interest base-rate is projected in the future and hence the interest payable by the Group and the Company at the fixed interest rate could increase respectively.

As at 31 December 2012 and 2011, borrowings of the Group and the Company, interest rate risk of which is managed by interest rate swaps, amounted to LTL 69 056 thousand.

As at 31 December 2012 and 2011, the Group and the Company had no financial instruments designated to manage exposure to fluctuations in interest rates arising on the outstanding balance of borrowings (other than described above).

The following table demonstrates the sensitivity of the Group's and the Company's profit before tax to potential shift in interest rates, taking into account the effect of interest rate swaps, with all other variables held constant (by changing the interest rate). There is no impact on the Group's and the Company's equity, other than current year profit impact.

	Group		**Company**	
	Increase/ decrease in percentage points	**Impact on profit before tax**	**Increase/ decrease in percentage points**	**Impact on profit before tax**
2012				
EUR	+0,25	(1 096)	+0,25	(1 096)
EUR	-0,25	1 096	-0,25	1 096
LTL	+0,15	(92)	+0,15	(92)
LTL	-0.15	92	-0,15	92
2011				
EUR	+1	(3 948)	+1	(3 948)
EUR	-1	3 948	-1	3 948
LTL	+0.5	(4)	+0.5	(4)
LTL	-0.5	4	-0.5	4

<u>Foreign exchange risk</u>

All monetary assets and liabilities of the Group and the Company are denominated in litas or the euro, and the exchange rate of the latter is fixed against the litas; therefore, the Group and the Company practically are not exposed to the foreign exchange rate risk.

<u>Liquidity risk</u>

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amounts of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 31 December 2012 were 0.42 and 0.41, respectively (31 December 2011: 0.53 and 0.51, respectively). The Company's liquidity (total current assets / total amounts payable within one year and current liabilities) and quick ratios ((total current assets – inventories) / total amounts payable within one year and current liabilities) as at 31 December 2012 were 0.37 and 0.36, respectively (31 December 2011: 0.48 and 0.46, respectively). In order to minimise balances of cash in bank accounts, the Company is using credit lines.

As at 31 December 2012, the Group's and the Company's current liabilities exceeded their current assets by LTL 353 794 thousand and LTL 382 396 thousand, respectively (31 December 2011: LTL 251 258 thousand and LTL 275 922 thousand, respectively). The Group's and the Company's cash flows from operating activities were positive and in the year ended 31 December 2012 amounted to LTL 334 867 thousand and LTL 325 006 thousand, respectively (31 December 2011: LTL 374 562 thousand and LTL 361 703 thousand, respectively). During the year 2012, the Group's and the Company's repayments of borrowings amounted to LTL 118 504 thousand (2011 – LTL 298 098 thousand) and proceeds from additional borrowings amounted to LTL 189 904 thousand (2011 – LTL 230 302 thousand). In the opinion of management, cash flows generated by the company will continued to be sufficient to cover its financial debts. Based on approved budget of 2013, the cash flows from operating activities are projected to increase, whereas capital expenditure is projected to be lower. Additionally, the Company is in the process of raising additional financing.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2012 and 2011 based on contractual undiscounted payments.

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest bearing borrowings and other liabilities with interest payable	82 456	101 893	396 282	5 478	586 109
Trade and other payables	322 725	-	322	-	323 047
At 31 December 2012	**405 181**	**101 893**	**396 604**	**5 478**	**909 156**
Interest bearing borrowings and other liabilities with interest payable	23 047	105 703	333 007	11 190	472 947
Guarantees issued	3 450	-	-	-	3 450
Trade and other payables	286 737	-	510	-	287 247
At 31 December 2011	**313 234**	**105 703**	**333 517**	**11 190**	**763 644**

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2012 and 2011 based on contractual undiscounted payments.

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest bearing borrowings and other liabilities with interest payable	82 456	101 893	396 282	5 478	586 109
Trade and other payables	318 876	-	322	-	319 198
At 31 December 2012	**401 332**	**101 893**	**396 604**	**5 478**	**905 307**
Interest bearing borrowings and other liabilities with interest payable	23 047	105 703	333 007	11 190	472 947
Guarantees issued	7 450	-	-	-	7 450
Trade and other payables	287 682	-	510	-	288 192
At 31 December 2011	**318 179**	**105 703**	**333 517**	**11 190**	**768 589**

Fair values of financial instruments

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

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

The carrying amount of the Group's and the Company's financial assets and financial liabilities approximates their fair value except for mortgage loans as it is disclosed in Note 7.

The fair value of borrowings is estimated based on discounted probable future cash flows using prevailing interest rates. The fair value of loans and other financial assets is estimated using 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 loan 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.

Financial instruments by category

Group	Loans and receivables	Total

At 31 December 2012			
Non-current receivables		2 183	2 183
Deposits		3 000	3 000
Trade and other receivables		188 313	188 313
Accrued income		21 667	21 667
Cash and cash equivalents		30 066	30 066
		245 229	**245 229**
At 31 December 2011			
Non-current receivables		2 370	2 370
Deposits		5 000	5 000
Trade and other receivables		176 922	176 922
Accrued income		23 750	23 750
Cash and cash equivalents		58 708	58 708
		266 750	**266 750**

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
At 31 December 2012			
Borrowings	576 767	-	576 767
Trade and other payables	322 726	-	322 726
Derivative financial instruments	-	1 558	1 558
Other liabilities	322	-	322
	899 815	**1 558**	**901 373**
At 31 December 2011			
Borrowings	444 728	-	444 728
Trade and other payables	286 737	-	286 737
Derivative financial instruments	-	1 511	1 511
Other liabilities	510	-	510
	731 975	**1 511**	**733 486**

Company	Loans and receivables	Total
At 31 December 2012		
Non-current receivables (Note 7)	2 183	2 183
Trade and other receivables	181 772	181 772
Accrued income	21 593	21 593
Cash and cash equivalents	9 581	9 581
	215 129	**215 129**
At 31 December 2011		
Non-current receivables (Note 7)	2 370	2 370
Trade and other receivables	171 085	171 085
Accrued income	23 750	23 750
Cash and cash equivalents	44 161	44 161
	241 366	**241 366**

	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
At 31 December 2012			
Borrowings	576 767	-	576 767
Trade and other payables	318 876	-	318 876
Derivative financial instruments	-	1 558	1 558
Other liabilities	322	-	322
	895 965	**1 558**	**897 523**
At 31 December 2011			
Borrowings	444 728	-	444 728

Trade and other payables	287 682	-	287 682
Derivative financial instruments	-	1 511	1 511
Other liabilities	510	-	510
	732 920	**1 511**	**734 431**

28. Commitments and contingencies

Buyout of electricity equipment

According to Order No 4-450 of 3 December 2003 of the Minister of Economy, as amended by Order No 4-72 of 15 February 2005, the Company conducted the buyout from individuals and companies electricity distribution equipment jointly used by them and the Company. The Company 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 (monetary contributions).

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 2012, the Company 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 2012, 28 electricity networks of common use for the value of LTL 474 thousand were bought out (in 2011 – 117 electricity networks, worth LTL 1 852 thousand). Since the beginning of the buyout until 31 December 2012, 915 electricity networks of common use of homestead cooperatives for the value of LTL 10 884 thousand were bought out. As at 31 December 2012, 26 applications with the requests to buyout equipment on concessionary terms were submitted.

Capital expenditure commitments

As at 31 December 2012, the Group's and the Company's capital expenditure commitments assumed under the contracts as at the date of the financial statements but not accounted for in the financial statements amounted to LTL 33 104 thousand (LTL 7 146 thousand in 2011).

29. Related-party transactions

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

- Visagino Atominė Elektrinė UAB (the major shareholder of the Company) its subsidiaries and associates. With effect from 27 September 2012, Visagino Atominė Elektrinė UAB is wholly-owned by the Ministry of Economy of Lithuania (ultimate controlling party). Until 27 September 2012, Visagino Atominė Elektrinė UAB was wholly-owned by the Ministry of Energy of Lithuania (ultimate controlling party).
- Subsidiaries of the Company;
- Associates of the Company;
- Key management of the Company as well as entities managed by the management or where the management has control or significant influence in those entities;
- All state controlled or significantly influenced entities (disclosures are made only for those state controlled entities, with which the transactions are significant).

Transactions with related parties are presented below:

Sales of goods and services to:

	Group		Company	
	2012	**2011**	**2012**	**2011**
Subsidiaries	-	-	8 425	3 255
Associates	11 416	10 707	288	239
Companies of Visagino Atominė Elektrinė UAB group (without LITGRID AB)	2 669	2 165	393	625
LITGRID AB	74 872	16 280	63 862	1 281
	88 957	**29 152**	**72 968**	**5 400**

Purchases of goods, services and property, plant and equipment from:

	Group		Company	
	2012	**2011**	**2012**	**2011**
Subsidiaries	-	-	83 960	69 941
Associates	74 885	56 729	73 092	54 675
Companies of Visagino Atominė Elektrinė UAB group (without LITGRID AB)	518 962	600 111	517 486	598 706
LITGRID AB	879 064	694 279	879 063	694 266
	1 472 911	**1 351 119**	**1 553 601**	**1 417 587**

Compensation of key management personnel

	Group		Company	
	2012	**2011**	**2012**	**2011**
Salaries and other short-term employee benefits	1 934	1 776	1 934	1 776

In 2012, the number of the Company's key management personnel was 9 (2011: 9). The key management of the Company (and Group) in 2012 and 2011 were CEO, chief accountant and directors of Company's service units.

Balances arising from transactions with related parties are presented below:

Amounts receivable from related parties:

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Subsidiaries	-	-	598	834
Associates	2 512	2 513	15	14
Companies of Visagino Atominė Elektrinė UAB group (without LITGRID AB)	272	368	24	42
LITGRID AB	18 401	17 777	16 928	14 840
	21 185	**20 658**	**17 565**	**15 730**

Amounts payable to related parties:

	Group		Company	
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2011**
Subsidiaries	-	-	17 172	10 357
Associates	17 577	7 021	17 284	6 374
Companies of Visagino Atominė Elektrinė UAB group	40 152	128 336	39 972	43 940
	101 172	84 221	101 171	84 221
	158 901	**135 357**	**175 599**	**144 892**

Dividends received

In 2012 the Company has received a dividend in the amount of LTL 712 thousand from its subsidiary company Elektros tinklo paslaugos, UAB, that were approved in the Elektros tinklo paslaugos, UAB shareholders in the shareholder meeting dated 30 April 2012, where profit appropriation was ratified.

Offsetting of dividends payable with loans received

In 2011, the Company fulfilled its commitment to pay dividends of LTL 13 980 thousand to Visagino Atominė Elektrinė UAB by way of offsetting this commitment against the commitment of Visagino Atominė Elektrinė UAB to repay to the Company an outstanding balance of loan of LTL 13 980 thousand based on the loan agreement of 3 December 2009 (Note 9). After the offsetting, the commitment of Visagino Atominė Elektrinė UAB to repay to the Company an outstanding balance of the loan under the loan agreement of 3 December 2009 was deemed to be fulfilled.

Guarantees issued

In 2011, the Company issued a guarantee to the bank in favour of its subsidiary Elektros Tinklo Paslaugos UAB and associate Tetas UAB in relation to overdraft services: the guarantee amount for Elektros Tinklo Paslaugos UAB was LTL 4 000 thousand, and LTL 3 450 thousand for Tetas UAB. In 2012, the Company issued no guarantees in favour of related companies.

The ageing analysis of amounts receivable from related parties as at 31 December 2012 is presented below:

		Amounts receivable past due but not impaired					
	Amounts receivable neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 120 days**	**More than 120 days**	**Total**
Company	17 565	-	-	-	-	-	17 565
Group	20 574	14	22	22	22	531	21 185

The ageing analysis of amounts receivable from related parties as at 31 December 2011 is presented below:

		Amounts receivable past due but not impaired					
	Amounts receivable neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 120 days**	**More than 120 days**	**Total**
Company	15 730	-	-	-	-	-	15 730
Group	20 658	-	-	-	-	-	20 658

30. 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 and the shareholders' equity should not be lower than 50 per cent of the company's authorised share capital. As at 31 December 2012 and 31 December 2011, the Group and the Company complied with these requirements.

When financing its business activities, the Group and the Company follow an optimal capital structure management policy seeking to make sure that the equity ratio (equity to assets ratio) exceeds 40 per cent. For the purpose of capital management the Group's and the Company's management define capital as shareholders' equity.

	Group		Company	
	2012	**2011**	**2012**	**2011**
Equity	3 299 978	3 515 962	3 314 168	3 528 744
Assets	5 170 511	5 283 545	5 039 701	5 162 360
Equity ratio (equity to assets ratio)	**64%**	**67%**	**66%**	**68%**

31. Investments in associates

On 28 December 2011, associate Technologijų ir Inovacijų Centras UAB issued 32 163 004 additional ordinary shares which were acquired by Lietuvos Energija AB (a company belonging to Visagino Atominė Elektrinė group), by non-monetary contributions worth LTL 34 414 thousand, comprising of 100% of ordinary registered shares of Data Logistics Center UAB. As a result of this transaction, the Company's ownership interest in Technologijų ir Inovacijų Centras UAB decreased from 43.03% to 24.94%, resulting in dilution gain of LTL 2 237 thousand in the consolidated financial statements. Following the completion of the transaction, Data Logistics Center UAB was merged into Technologijų ir Inovacijų Centras UAB and removed from the Register of Legal Entities on 22 November 2012.

In 2012, the Company's Board passed a decision regarding the sale of its ownership interest in Tetas UAB. As a result of this decision, Tetas UAB was reclassified to assets held for sale

Movements in investments in associates are summarised below:

	Group		Company	
	2012	**2011**	**2012**	**2011**
Opening balance	**21 194**	**18 693**	**21 570**	**21 570**
Gain (loss) on decrease of ownership interest in associate	-	2 237	-	-
Transfer from investments in associates to assets held for sale	(3 610)	-	(2 488)	-
Profit (loss) on investments in associates using the equity method	436	264	-	-
Closing balance	**18 020**	**21 194**	**19 082**	**21 570**

Financial results of operations of associates are presented below:

Name	**Country**	**Assets**	**Liabilities**	**Sales revenue**	**Profit (loss) for the year**	**Ownership interest (%)**
2011						
Technologijų ir Inovacijų Centras UAB	Lithuania	78 591	9 175	48 147	(423)	24,94
Tetas UAB	Lithuania	20 284	10 424	55 634	1 191	38,87
2012						
Technologijų ir Inovacijų Centras UAB	Lithuania	69 499	13 299	56 844	3 730	24,94
Tetas UAB (until October 2012)	Lithuania	36 237	26 928	45 128	(631)	38,87

32. Investments in subsidiaries

In the Company's financial statements:

	2012	**2011**
Opening balance	**191 018**	**191 018**
Contribution to share capital	4 610	-
Closing balance	**195 628**	**191 018**

On 1 January 2012, 00:00 am, based on the Agreement for the Subscription of Shares signed on 23 December 2011 the Company made an in-kind contribution to subsidiary Elektros Tinklo Paslaugos UAB in the total amount of LTL 4 051 thousand, by transferring property, plant and equipment with the carrying value of LTL 708 thousand and inventories and other current assets with the value of LTL 3 343 thousand in exchange for newly issued shares. Following this in-kind contribution, the Company's ownership interest increased from 71.13% to 74.97%. In consolidated financial statements

the transaction represented acquisition from non-controlling interest; as a result of the contribution, equity attributable to the non-controlling interest was reduced and equity attributable to owners of the Company was increased by LTL 124 thousand.

On 31 January 2012, the subsidiary NT Valdos increased its authorised share capital by LTL 4 338 thousand through the issue of 43 381 ordinary registered shares with par value of LTL 100 each. The Company acquired 5 591 newly issued shares of NT Valdos UAB, by making an in-kind contribution, by transferring property, plant and equipment with the carrying value of LTL 559 thousand. As a result of this transaction, the Company's ownership interest changed from 57.93% to 57.30%. In consolidated financial statements the transaction represented a disposal to non-controlling interest The other portion of newly issued shares (37 790 shares) was acquired by Lietuvos Energija AB through in-kind contribution in total amount of LTL 3 774 thousand, by transferring to the Group property, plant and equipment in the amount of LTL 55 thousand and investment property in the amount of 3 719 thousand. In total the Group's equity was increased by LTL 3 774 thousand; the increase was attributable to the non-controlling interest.

33. Non-monetary transactions

The following main non-monetary items were eliminated for the purpose of the cash flows statement:

In 2012

In the Company's financial statements

Transfer of property, plant and equipment with the carrying value of LTL 1 267 thousand, and inventories and other current assets with the carrying value of LTL 3 343 thousand in exchange for newly issued shares of subsidiaries Elektros Tinklo Paslaugos UAB and NT Valdos (see Note 32).

In the Group's financial statements

Contribution by Lietuvos Energija AB (non-controlling interest) in return for the shares of subsidiary NT Valdos in the form of property, plant and equipment in the amount of LTL 55 thousand and investment property in the amount of 3 719 thousand (see Note 32).

In 2011

Offsetting of dividends against the outstanding balance of loan of Visagino Atominė Elektrinė UAB amounting to LTL 13 980 208.60 (Note 29).

34. Events after the end of the reporting period

On 7 January 2013, the Share Exchange Agreement was concluded between the Company and LITGRID AB. Under the latter agreement the Company disposed to LITGRID AB shares of associate TETAS UAB held by the right of ownership which represent 38.87% of TETAS UAB authorised share capital in exchange for shares of ELEKTROS TINKLO PASLAUGOS UAB being disposed by LITGRID AB which represent 25.03% of ELEKTROS TINKLO PASLAUGOS UAB authorised share capital. Following the acquisition of shares, the Company became the sole shareholder of ELEKTROS TINKLO PASLAUGOS UAB. The investment to Tetas UAB is transferred to assets held for sale in the Company's financial statements as at 31 December 2012.

In the implementation of Resolution No. 141 of 13 February 2013 of the Lithuanian Government *Regarding the Transfer of State-owned Shares* and amendment to Resolution No. 826 of 4 July 2012 of the Lithuanian Government *Regarding the Establishment of the Private Limited Liability Company and Investment of State-owned Assets*, state-owned shares of Visagino Atominė Elektrinė UAB (the major shareholder of the Company) previously possessed by the Ministry of Economy by the right of trust were transferred to the Ministry of Finance on 26 February 2013.

AB LESTO group, AB
Consolidated annual report, 2012

15 March 2013

CONTENTS

CEO ADDRESS TO COMPANY'S SHAREHOLDERS

Ladies and Gentlemen,

The year 2012 was full of challenges for the energy sector. Those challenges had their influence on LESTO as well. Because of the recovering economy and the development of renewable energy sources, the company attracted huge numbers of new customers, the old and unreliable electrical grids, owned by gardening communities had to be reconstructed, thus enabling the customers to get reliable electrical energy. Also, on the 6th of October Lithuanian was ravaged by the fiercest storm in 10 years and 140,000 of customers faced the technical difficulties of getting the electric power.

Nevertheless, LESTO managed to overcome the challenges and achieved great results that astonished the shareholders, the other market players and our clients. The more efficient managing of the company, the reduced technological input of the electricity distribution network of the company allowed us to improve the financial outcome. The EBITDA (earnings before interest, tax, depreciation and amortization) margin shows the raising efficiency of LESTO group – in 2012 it increased up to 17.12 percent, while in the year 2011 it was 16.13 percent. The EBITDA margin of the whole group increased by 7.9 percent, up to record 390.964 million LTL.

All the main performance indexes of LESTO grew up; the management of the company was increasing the value of the company for the shareholders and community. In 2012, we significantly increased the investments into the modernization and development of the electrical grid, the investments totaled 323 million LTL. During the year 2012, LESTO connected 18,130 new objects to its grid, that's 7.6 percent more than in 2011. Also, during the year 2012 in order to avoid the disruption of energy services during the natural disasters, LESTO had built 1243 kilometers of cable lines.

We cherish the environment we‘re operating in, so we‘re trying hard that the technological progress, while benefiting the business and market, would not have a negative influence on the environment. At the meantime, underground cable lines compose 24 percent of the whole electrical grid. Renewed electrical substations, new electrical lines and modernized electrical grids of the gardening communities allowed thousands of clients enjoy reliable electrical energy. The indexes, used to measure the reliability of the electrical energy supply were improving during the whole work of the company. In 2012, system average interruption duration index (SAIDI), excluding the influence of the national disasters, was 76.67 minutes per customer, the system average interruption frequency index (SAIFI) was 1.06 times per customer.

The results of customer satisfaction surveys confirm our movement towards the right direction. In 2012, the level of customer satisfaction (assessed using the GSCI surveying methodology) is 10 points higher than the comparable GCSI index of European energy companies. LESTO customer service surpasses customer expectations. LESTO has more than 1.53 m of clients in Lithuania and their confidence in us is extremely important for the successful work of the company.

Last year LESTO signed one hundred-thousandth direct debit agreement, and at the end of the year this number has reached 140,000. At the end of the year 36 percent of the payments for the electricity were paid through paperless means, the clients gradually abandon the traditional methods of paying with the paper payment books and embrace modern payment methods. LESTO was continuously improving the available services that are provided through the remote channels, thus being phone number 1802 and self-service website "Mano Elektra" ("My Electricity). Also new functions were installed – new customers can apply through the Internet.

The endeavor of LESTO were noticed and appreciated. In 2012 LESTO was awarded as "The Best Socially Oriented Company" in the category of large Lithuanian companies for the year 2011. LESTO was placed 4^{th} in the survey of the most attractive employer in Lithuania, organized by "CV Market". In the year 2011 LESTO received a certificate for the country representation in „Europe Business Awards 2011". In 2012, LESTO was acknowledged by "Deloitte" as one of the 500 biggest companies in the Central Europe. The annual report of LESTO for the year 2011 was acknowledged to be the third best among the companies, quoted at the Baltic States exchanges.

We're moving forward to create a success story. The needed tough changes are already being implemented; they're clear, open and honest. LESTO, striving to increase its worth, in 2012 ratified the long-term strategy. Its main goal is to reliably meet the needs of our clients, instilling innovations in all the fields of our activities, and striving to become a model company with the trust of the community. This year the company is still working towards the directions, ratified in the strategy – increasing the efficiency of customer service, using state-of-art management methods, optimizing activities, ensuring fluent and efficient work of the company.

The actions of the company meet the declared values and they will help to improve the employees and the company itself. We met the year 2013 with a clear plan of action to improve the means of service, modernize and optimize the electricity distribution network. We base our relationship on trust and I hope that working together we could increase the value and reputation of the company.

Respectfully,
Dr. Arvydas Tarasevičius,
Chief Executive Officer of AB LESTO

GENERAL INFORMATION

Reporting period covered by the report

Report covers January to December of 2012.

Key data on issuer

Company name	AB LESTO
Company code	302577612
Authorised capital	LTL 603 944 593
Registered address	Žvejų str. 14, LT-09310 Vilnius
Telephone	+370 5 277 7524
Fax	+370 5 277 7514
E-mail	info@lesto.lt
Website	www.lesto.lt
Legal- organisational form	Joint-stock company
Date and place of registration	27 December 2011, Register of Legal Entities of the Republic of Lithuania
Register in which data on the company is collected and stored	Register of Legal Entities
Register manager	State Enterprise Centre of Registers

Information availability

This report and other documents based on which it has been prepared are available at the company's office at Žvejų str. 14, Vilnius, Corporate Communication department (office No.118) from 7.30 to 16.30 Monday to Thursday and from 7.30 to 15.15 on Fridays. Report is available on company's website (www.lesto.lt) and on Stock exchange market NASDAQ OMX Vilnius website (http://www.nasdaqomxbaltic.com) .

Public announcements that AB LESTO must announce according to the valid Laws of the Republic of Lithuania, are published via Register of Legal Entities electronic edition for public announcements. Company also publishes announcements via company's website (www.lesto.lt) and Stock exchange market NASDAQ OMX Vilnius website (www.nasdaqomxbaltic.com).

Persons responsible for the information provided in the report

Office	Name, surname	Telephone
Chief Executive Officer	Arvydas Tarasevičius	+370 5 277 7524
Director of Finance and Administration Service	Ramutė Ribinskienė	+370 5 277 7524
Director of Finance Department	Artūras Paipolas	+370 5 277 7524
Director of Accounting Department	Zina Chmieliauskienė	+370 5 277 7524

Report is prepared in accordance with Law on Securities of the Republic of Lithuania, decision of the Board of the Bank of Lithuania No. 03-48 (28 February, 2013) on Rules of Drawing up and the Submission of the Periodic and Additional Information, and other valid laws and legal acts.

Report signature date

Report was prepared and signed on 15 March, 2013.

LESTO activities

AB LESTO (hereinafter – LESTO, Company) was established on the basis of reorganized Lithuanian electricity distribution companies Rytų skirstomieji tinklai AB and "VST" AB that were merged and on 31 December, 2010, finished their activity as legal entities. LESTO took over assets, rights and obligations of merged companies and since 1 January, 2011 started its activity as electricity distributor and public supplier.

LESTO is Lithuanian distribution network operator. Company's main responsibilities include: provision of network service for customers; satisfaction of customers needs; effective connection of new users; exploitation, maintenance, management and expansion of distributive network; assurance of network security; optimization of operating costs and reduction of technological losses. LESTO geographical market is Lithuania.

LESTO values

COOPERATION: We work and take responsibility as a team.

RESPECT: We respect each individual and the surrounding environment.

DEDICATION: We are proud to represent energy sector and serve our community.

POSITIVE ATTITUDE: We are always looking ahead and constantly spread good mood.

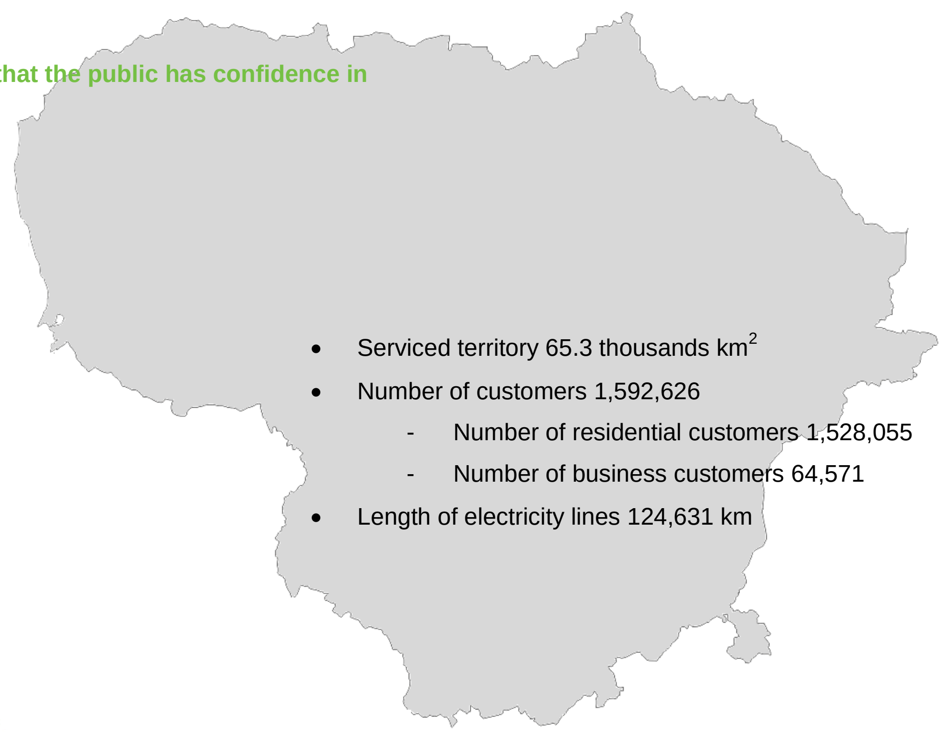
INNOVATIVENESS: We are seeking perfection and initiating changes.

LESTO mission

Reliable electricity for a meaningful life of everyone

LESTO vision

A model company that the public has confidence in



- Serviced territory 65.3 thousands km^2
- Number of customers 1,592,626
  - Number of residential customers 1,528,055
  - Number of business customers 64,571
- Length of electricity lines 124,631 km

LESTO company group

On the report signature date LESTO with its subsidiaries ELEKTROS TINKLO PASLAUGOS UAB, NT Valdos UAB and associated companies Technologijų ir inovacijų centras UAB (On report signature date Technologijų ir inovacijų centras UAB had 100% Respublikinio energetikų mokymo centras VsI, 0,59% NT Valdos, UAB capital), make up LESTO company group (hereinafter – LESTO group).

Key data on subsidiaries and associated companies

	Elektros tinklo paslaugos UAB	NT Valdos UAB	Technologijų ir inovacijų centras UAB	TETAS UAB
Address	Motorų str. 2, Vilnius	Geologų str. 16, Vilnius	A.Juozapavičiaus str. 13, Vilnius	Senamiesčio str. 102B, Panevėžys
Registration date	8 December 2004	18 January 2007	9 July 2010.	8 December 2005
Company code	300072351	300634954	302527488	300513148
Telephone	+370 5 210 6809	+370 5 210 6539	+370 5 278 2272	+370 5 504 670
Fax	+370 5 216 7875	+370 5 210 6543	+370 5 278 2299	+370 5 504 684
E-mail	etp@etpa.lt	info@valdos.eu	info@etic.lt	tetas@rst.lt
Website	www.elektrostinklopaslaugos.lt	www.valdos.eu	www.etic.lt	www.tetas.lt
LESTO ownership, % on 31 December 2012	74.97	57.30	24.94	38.87
LESTO ownership, %, on report signature date*	100	57.30	24.94	-
Profile of activities	Power network engineering, construction, repair, maintenance and customer connection to the grid services.	Real estate and transport rental and administration services.	IT and communication services.	Power network engineering, construction, repair, maintenance and customer connection to the grid services

* LESTO ownership has changed on 7 January, 2013, after making the shares swap agreement with LITGRID AB (code 302564383) under LESTO Board 30 October, 2012 decision, according to which LESTO transferred TETAS UAB shares which amounted 38.87 % of authorized capital to LITGRID AB. In return LITGRID AB transferred Elektros tinklo paslaugos UAB shares which amounted 25.03% of authorized capital of transferred Elektros tinklo paslaugos UAB. After obtaining Elektros tinklo paslaugos UAB shares LESTO became the only shareholder of Elektros tinklo paslaugos UAB .

LESTO management

LESTO management bodies include General Meeting of Shareholders, Board and Chief Executive Officer. LESTO does not have Supervisory Board.

General Meeting of Shareholders

General Meeting of Shareholders is a supreme body of the Company.
The competence of the General Meeting of Shareholders and the procedure for convening the meeting and adopting decisions are governed by the law, other legal acts and Articles of Association.
During the reporting period shareholders of the Company had equal rights (property and non-property) defined in the law, other legal acts and Articles of Association. None of the LESTO shareholders had any special rights of control.
The managing bodies of the Company provided adequate conditions for exercise of the rights of the Company's shareholders during the reporting period.

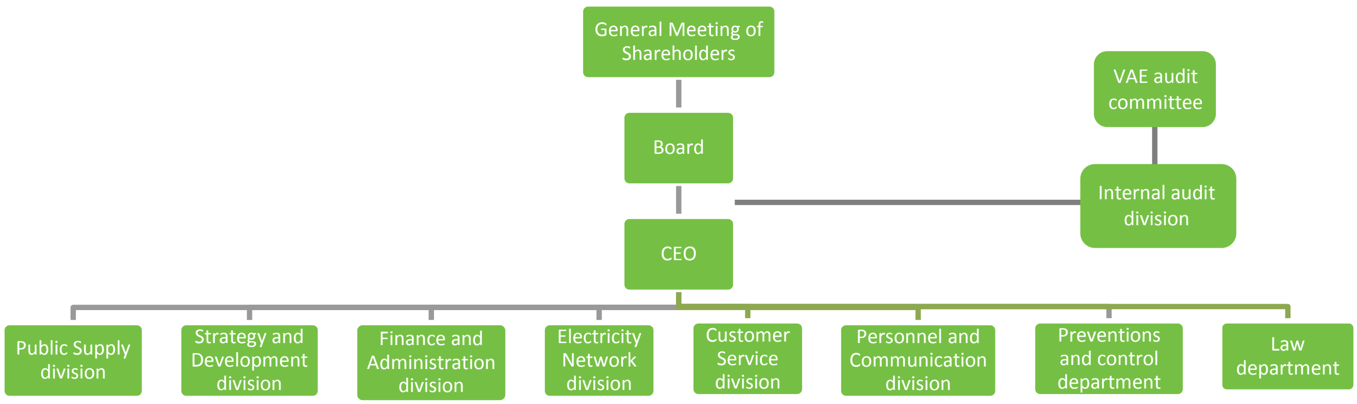
Board

LESTO Board is a collegiate managing body of the Company.
The competence of the Board, the procedure for adoption of decisions, election and recall of members are governed by the law, other legal acts and Articles of Association. The Board consists of five Board members that are elected by the General Meeting of Shareholder for the term of four years. The Board members elect the chairman of the Board out of its members.
In the beginning of the reporting period the Board of the Company consisted of the chairman of the Board Arvydas Darulis and Board members: Kęstutis Žilėnas, Arvydas Tarasevičius, Aloyzas Vitkauskas.
On 3 January, 2012 the Board member Arvydas Darulis, who was also the chairman of the Board from 13 December, 2010 by the decision of the Board, was recalled by the decision of General Meeting of Shareholders. Rimantas Vaitkus and Darius Maikštėnas were elected as new members of the Board.
On 3 January, 2012 Kęstutis Žilėnas was elected as a chairman of the Board by the decision of the Board.
On 21 June, 2012 Rimantas Vaitkus, Aloyzas Vitkauskas and Kęstutis Žilėnas were recalled by the decision of the Extraordinary General Meeting of Shareholders. Edita Jonikienė, Paulius Martinkus and Žygimantas Vaičiūnas were elected as new members of the Board. On 21, June 2012 Darius Maikštėnas was elected as a chairman of the Board by the decision of the Board.
On 27 December, 2012 Žygimantas Vaičiūnas resigned from the Board.
On the report signature day the Board of the Company consists of the chairman of the Board Darius Maikštėnas and Board members: Arvydas Tarasevičius, Edita Jonikienė, Paulius Martinkus. Ending of term of the Board is 13 December, 2014.

Chief Executive Officer

Chief Executive Officer (hereinafter – CEO) is a one-person managing body of the Company.
The competence of the Managing Director and the procedure for election and recall thereof are governed by the law, other legal acts and Articles of Association. CEO is elected and recalled by the Board of the Company. CEO organises the Company's activities, manages the Company, act on behalf of the Company and unilaterally conclude transactions.
On 13 December, 2010 Arvydas Tarasevičius was elected as a CEO of LESTO.

LESTO management structure



LESTO Board and CEO

Darius Maikštėnas
Independent member of the Board,
Chairman of the Board

In this position:
since 3 January, 2012
Ending of term:
13 December, 2014
Education:
Kaunas University of Technology, Master in Business Management.
Baltic Management Institute, Executive MBA.
Harvard Business School, GMP graduate.
Main occupation:
UAB „Omnitel“, Vice-president for Marketing and Services.

Arvydas Tarasevičius
Member of the Board

In this position:
since 29 April, 2011
Ending of term:
13 December, 2014
Education:
Vilnius University, Master in Economic Cybernetics.
Vilnius University, Doctor of Social Sciences.
Main occupation: LESTO AB, CEO

Edita Jonikienė
Independent member of the Board

In this position:
since 21 June, 2012
Ending of term:
13 December, 2014
Education:
Vytautas Magnus university , Master in Business Management
Government of France and three French universities Institut d'études politiques de Paris, École nationale des ponts et chaussées and Mines ParisTech management studies after Master degree
Main occupation: UAB „Vilniaus investicijos“, CEO

Paulius Martinkus
Member of the Board

In this position:
since 21 June, 2012
Ending of term:
13 December, 2014
Education:
The Stockholm School of Economics in Riga, Bachelor in Economics and Business Administration
Main occupation: the State Property Fund, head of state owned companies‘ control coordination department

Information on LESTO Board members participation in the activities of companies and organisations; shareholding in other companies exceeding 5% of capital/votes

Name, surname	Name of organisation, position	Capital held, %	Share of votes, %
	Board		
Darius Maikštėnas	LESTO AB, independent member of the Board, chairman of the Board	-	-
		-	-
	UAB “Omnitel”, vice-president for Marketing and Services	-	-
	“TeliaSonera AB” mobile services, business manager of business and private clients of Lithuania	-	-
	Association „Baltic Institute of Corporate Governance“, member of the Board	-	-
Arvydas Tarasevičius	LESTO AB, CEO and member of the Board	-	-
	Technologijų ir inovacijų centras UAB, member of the Board	-	-
	NT Valdos UAB, member of the Board	-	-
	LITHUANIAN ELECTRIC ENERGY ASSOCIATION, member of the Council	-	-
	Homestead cooperative Žemyna, member of the Board	-	-
	VšĮ Respublikinis energetikų mokymo centras, member of the Board	-	-
Edita Jonikienė	LESTO AB, independent member of the Board	-	-
	UAB Vilniaus Investicijos, CEO	82	82
	Panevėžys region agriculture company „Atžalynas“, member of the Board	10	10
	Agriculture company „Gulbinas“	10	10
	UAB „Arbėja“	43	43
	UAB „Suvalkijos aidai“, member of the Board and chairman of the Board	-	-
	VsĮ The American International School of Vilnius, member of the Board	-	-
Paulius Martinkus	LESTO AB, member of the Board	-	-
	The State Property Fund, head of state owned companies‘ control coordination department	-	-
	UAB „Toksika“, chairman of the Board	-	-
	UAB „Litexpo“, member of the Board	-	-
	CEO		
Arvydas Tarasevičius	Look for the information above	-	-
	Chief Accountant, Director of Accounting department		
Zina Chmieliauskienė	-	-	-

Information on payments to LESTO Board members*, CEO and Director of Accounting department over reporting period**

	Salaries, LTL	Other payments, LTL
CEO Arvydas Tarasevičius	241,978	-
Chairman of the Board Darius Maikštėnas	-	22,500
Member of the Board Edita Jonikienė	-	5,100
Member of the Board Paulius Martinkus	-	-
Member of the Board Žygimantas Vaičiūnas	-	-
Director of Accounting department Zina Chmieliauskienė	171,044	-
Members of the Administration total	413,022	27,600

* 27 April, 2012 by the decision of General Meeting of Shareholders, the agreement of independant member factual work was signed with chairman of the Board Darius Maikštėnas.
6, November 2012 by the decision of General Meeting of Shareholders, the agreement of independant member factual work was signed with member of the Board Edita Jonikienė.
The payoffs are not set to the other members of the Board.

**LESTO has not transferred any assets to members of management bodies.

Agreements between the Issuer and members of its management bodies, members of its committees or employees providing for compensation in case of resignation or dismissal without a valid reason or of termination of work due to changes in the ownership of the Issuer

No such agreements between the Issuer and member of its management bodies or employees were made.

Strategy and goals

LESTO's long-term strategy for the year 2012-2020 projects company's aspiration to be effective, to use resources optimally, to serve customer's needs, and act as company that shares society's trust. By its actions LESTO strives to contribute to the goals set in the National Energy Strategy, as well as to the initiatives of the European Union to save energy, protect environment and to integrate into energy market, supply safe, reliant and accessible energy, dynamically adapt to ever-changing internal and external environment.

The company shall strive to increase its value by working in these directions:

- Increase efficiency in customer services;
- Create a modern organizational culture, apply up to date management methods, and increase efficiency in business processes;
- Reduce loss in an electrical grid, ensure connection of new customers and reliability of grid functioning.

During 2012 LESTO implemented these efficiency of activities measures:

- Low strain distribution network transformer replacement by lower power transformers in order to use assets more effectively and decrease loss of electricity;
- Optimization of rented area that enabled Company to decrease rent costs. Excess area was rejected and rented area is used more effectively;
- Several activities delegation purchasing services in the market. When seeking to improve maintenance and investment quality and decrease costs Company transferred electric energy repair and technical maintenance works (including employees) of the west side to the market. Also Company transferred planned meter readings write down transferred to external service providers in order to improve effectiveness and decrease costs;
- Customer portal of self-service web site "My Electricity" was expanded. Clients can use services more comfortably;
- LESTO implemented more than 90 % public procurement procedures, calculated by procurement value, were performed by Central Public Procurement Information System (CVP IS) means. The system enables procuring organizations to organize all the procurement cycle by electronic method and procurers can conveniently and easily under "one-window" principle participate in public procurement.

In 2012 "Electric to the house" service was established. Private and business clients by customer service hotline 1802 can register electricity network breakdowns in their places, those orders are transferred to companies which renders such services.

Three priorities for activities are distinguished during the realisation of a long-term strategy:

- efficiency of activities
- technologies
- development of activities

Efficiency of activities

Over the following three years, special attention shall be paid to the growth of efficiency of activities. Forecasts reveal that innovative means for optimisation of activities, will allow reduction of costs in such a way that adequate investments into the renovation of the electrical grid and its modernization will be made. At the same time clients of the company shall be granted the quality of services that is not lower than the average of the European Union.

Plans are made for increasing efficiency of activities: business excellence programme, implementation of dispatch control system, centralization and optimisation of activities, delegation of certain services while acquiring services in the market, optimisation of electricity distribution network, rating of investments and others.

In view of growing consumer consciousness and rising quality expectations, electronic client services and information channels shall be strongly developed, while more and more services shall be provided in a customer friendly way.

Highly competent people and change-oriented organisational culture is necessary during major changes. Therefore programs of employer competence, efficiency, motivation and teamwork strengthening are being developed.

Technologies

After intensive optimization of activities, further development of electrical grid is possible by investing into modern technologies that are designed to reduce the loss in electrical grids: solutions of automation of electrical grids, modern control systems of disconnection and administration of electrical grid, modern engineering and technical solutions for electrical grid development and others. At this stage LESTO attributes great value to the benefits of new technologies as well as aims and shall aim to apply them in its activities.

Development of new technologies in electric energy sector shall be influential in all spheres of activities of the company - integrating power plants that produce energy from renewable sources into the electrical grid, installing smart meters and other.

Development of activities

While changes in organisation are taking place and competence of workers is increasing, creation of new services is considered to be an important priority of LESTO. By directing available high and specific competences of employers to the right direction, the company is planning to create and provide additional services. Potential can be seen in such services as “Electrician to your home“, development of electric cars charging network and others (depending on the needs of the market).

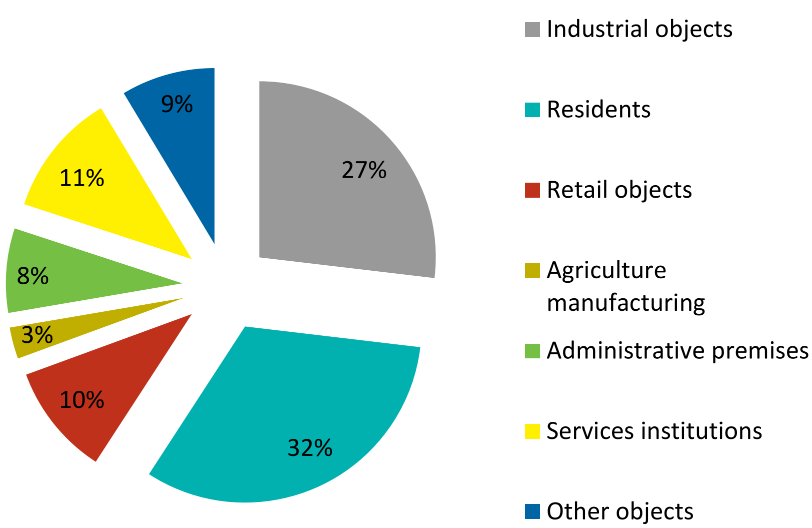
Electricity distribution network

Development and expansion of the activities

Activity indicators	2012	2011
Amount of electricity received to the distribution network, million. kWh	8,804	8,562
Technological losses in the distribution network, million kWh	691	711
Volume of network service, million kWh	8,113	7,851
Amount of electricity sold, million. kWh	3,609	4,168
Electricity quality indicators:		
SAIDI, minutes (with "force majeure")	288.10	302.57
SAIFI, times (with "force majeure")	1.83	2.19

During the twelve months of 2012 the amount of LESTO network service reached 8,113 million kWh. Electricity sales made up 44.5 % of this amount, to the rest customers LESTO granted only network service. Comparing with 2011 twelve months, the amount of electricity received and volume of network service increased. This was due to the increased number of new customers and the improved economic situation in Lithuania. Technological losses experienced by the Company during the twelve months of 2012 amounted to 691 million kWh, this was 20 million kWh less compared to the same period of 2011. During the twelve months of 2012 technological losses totalled to 7.8 % from amount of electricity received. Sales of electric energy decreased as more consumers have opted independent suppliers.

Structure of network service volumes by objects



32 % of electricity network service volume was allocated to residents. Industrial and service institutions consumed 27 % and 11 % respectively. The structure of electricity network service during the reporting period of 2012 has not changed.

.

LESTO pays much attention to electricity network development and updating. This helps to provide the society with economic and social benefits, to increase the reliability and quality of electricity supply, to facilitate more rational use of energy, all this contributes to the Company's environmental policy.

In 2012, LESTO investments in electricity network expansion and modernization reached 322.8 million LTL. This was 9.3 per cent more compared to the investment in 2011.

In 2012, the biggest increase (24.8 %) was in investment in the reconstruction and overhaul of 0.4 - 10 kV electricity network. Investment in the reconstruction of 110/35/10 kV transformer substations and 10 kV distribution subsections has increased by 2%.

LESTO investment, LTL thousand

	2012	2011	Change, %	Structure, %	
				2012	2011
Investments in expansion	**163,234**	**156,593**	**4.2**	**50.6**	**53.0**
Connection of new customers	161,532	153,560	5.2	99.0	98.1
Buyout of electricity objects	1,702	3,033	-43.9	1.0	1.9
Investments in maintenance	**159,608**	**138,760**	**15.0**	**49.4**	**47.0**
Low voltage electricity grid	93,242	74,720	24.8	58.4	53.8
Medium voltage electricity grid	54,883	53,817	2.0	34.4	38.8
Other investments	11,483	10,223	12.3	7.2	7.4
Total	**322,843**	**295,353**	**9.3**	**100**	**100**

During the year 2012, LESTO has connected 18,130 objects of new customers, 7.6 per cent more than in the 2011 when it had 16,852 objects connected. The permissible power for new customers was equal to 236.8 kW, which is 10.8 per cent less than in the 2011, when the permissible power was 265.4 kW.

In 2012 LESTO continued the redemption of networks of the gardeners communities in order to meet the rising demands for electricity consumption of the gardeners and the infrastructure maintenance needs and ensure reliable, safe supply of electricity and network upgrades. All networks have been redeemed by the natural state, the customers had individual electricity meters installed free of charge. In 2012, LESTO redeemed 33 networks of the gardeners communities. From the beginning of the redemption process of the power networks (in 2003) LESTO redeemed 915 power networks or 94.8 % of the networks of the gardeners communities.

While implementing a finance and administration contract between AB LESTO, the Ministry of Economy of the Republic of Lithuania and the public enterprise Lithuanian Business Support Agency “AB LESTO Electricity Distribution Network Modernization and Expansion in the Gardeners Communities" signed on March 29, 2012 (project code no. VP2-4.2-ŪM-01-K-03-002) on the modernization of the electricity networks of 76 gardeners communities that are located on the AB LESTO serviced territory of Lithuania, in 2012, there were fully implemented network modernization and expansion works in 43 gardeners communities. Up to 12.46 million LTL have been allocated from the EU Structural Funds for the project funding.

While implementing a finance and administration contract between AB LESTO, the Ministry of Economy of the Republic of Lithuania and the public enterprise Lithuanian Business Support Agency “AB LESTO Electricity Distribution Network Development - Electrification of Homesteads" signed on March 29, 2012 (project code no. VP2-4.2-ŪM-01-K-03-001) on the electrification of 31 not electrified homesteads in the western part of Lithuania”, in the end of February, 2013, technical works of the connection to the power network were finished in 29 homesteads. The agreements on purchase and sales of electricity power were signed by the habitants of 21 homesteads.

After the implementation of the project between AB LESTO and Lithuanian Ministry of Economy and Lithuanian Business Support Agency “AB LESTO distribution network development“ signed on May 17 2011 on the funding and administration of the contract on electrification of not electrified homesteads in eastern Lithuania (the former territory of AB Rytų skirstomieji tinklai), all 50 homesteads participating in the project have been connected to the distribution network. The agreements on purchase and sales of electricity power were signed by the habitants of 46 homesteads.

In 2013, the Company will implement the projects that will be partly financed by the EU Structural Funds. LESTO signed three finance and administration contracts with Ministry of Economy of the Republic of Lithuania and the public enterprise Lithuanian Business Support Agency on December 28, 2012, to implement these projects:

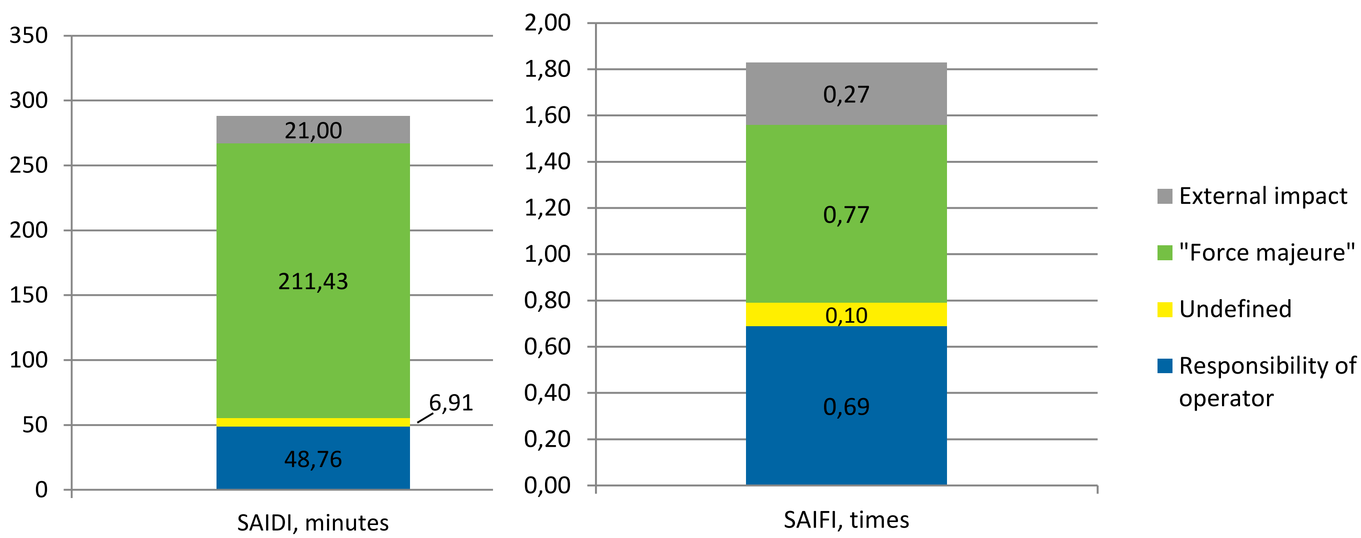
- “AB LESTO Electricity Distribution Network Modernization and Expansion in the Gardeners Communities" (project code no. VP2-4.2 ŪM-01-K-04-004), on the modernization of the electricity networks of 17 gardeners communities that are located on the AB LESTO serviced territory of Lithuania. Up to 4.64 million EUR have been allocated from the EU Structural Funds for the project funding.
- “AB LESTO overhead power lines replacement with cable lines” (Project code no. VP2-4.2-ŪM-01-K-04-002) (36 objects). Up to 7.8 million LTL have been allocated from the EU Structural Funds for the project funding.
- “AB LESTO Transformer Substations Modernization” (project code no. VP2-4.2-ŪM-01-K-04-003). The project will include upgraded seven transformer substations. Project allocated funding from the EU Structural Funds is up to 15 million LTL.

Distribution network reliability indexes

In 2012, regardless of the influence of natural disasters (“force majeure”) the system average interruption duration index (SAIDI) per customer was equal to 76.67 minutes, the system average interruption frequency index (SAIFI) per customer reached 1.06 times. In 2011, power supply quality indicators, regardless of natural disasters, were: SAIDI – 84.68 min and SAIFI – 1.12 times.

In order to avoid damage of power air lines and any detriment during natural disasters, LESTO purposefully changed the air lines to underground cable lines. During the reporting period 1,243 kilometers of underground (cable) lines were laid. Cable lines significantly reduce the number of failures during the operation, their maintenance is less expensive. Moreover having changed the airlines to the cables the landscape becomes more attractive.

Quality of electricity supply (SAIDI, SAIFI) 2012 January – December



LESTO personnel

The main asset of a company is its employees, the most important link when pursuing the set objectives. The Company's personnel policy is focused to occupational training of the workers and culture development of organization, ensuring the creation of greater value for the customers, partners and society.

In March 2012, the company was recognized as one of the most attractive employers in Lithuania, in the CV Market survey it took the fourth place.

In order to increase the Company's efficiency in the first quarter of 2012, when implementing Distribution network strategy, finished transferring electric energy repair and technical maintenance works to the market. Company sought to ensure all social guarantees to those employees, which they had working in LESTO AB, signed bilateral agreements with contractors which won in public procurement. 44 workers were transferred to new workplaces.

From the second quarter of 2012, in order to improve customer service efficiency, Back Office functions were centralized: they were moved from the Company customer service centers to the Operations Department, debt management functions were automated and centralized as well. And from the second quarter the services of the maintenance groups of power network operation teams are purchased in the market in order to have network maintenance works being carried out with expedition and quality at the best prices. Since July, one of the customer service functions (meter readings write down) has been transferred to external service providers. For these reasons the number of AB LESTO employees decreased

These changes have had an impact on the number of employees of AB LESTO. From the beginning of the year 2012 the number of employees of AB LESTO company declined 11.6 per cent, from 2,890 employees in 1 January, 2012, up to 2555 employees in 31 December, 2012. During the reporting period the number of employees of AB LESTO group decreased 5.1 per cent, from 3,564 employees in 1 January, 2012, up to 3,384 employees in December 31, 2012.

Category	Number of employees		Change, %
	12 31 2012	12 31 2011	
Top-level managers	9	9	0,0
Middle-level managers and specialists	2,075	2,243	-7.5
Workers	471	638	-26.2
Total	2,555	2,890	-11.6

The structure of employees according to education was following: 54.7% employees had higher education, 25.3% had post-secondary education, 20.0% - secondary or specialised-secondary education.

Training

LESTO organizes three types of training courses. During formal and informal training sessions the employees improve their qualification and receive special work permit certificates. The employees participated in the trainings for automotive platform hoist operators, construction managers and construction maintenance managers, workers, high-scalers, lifting equipment operators, logging managers, trees, shrubs and branches reapers in protection zones, 0,4 kV voltage branch line connection/disconnection workers, first aid and hygiene skills, special driving licenses (BE, C, CE), and in other trainings. In 2012, the compulsory trainings involved 973 employees.

The Company organizes staff trainings for general education competencies. These trainings are organized in groups within the company, as well as individual employees are sent to the seminars and conferences organized by external suppliers. In 2012, one of the principal policies of personnel management was the development of the leadership skills. Based on the model generated for leadership competencies in 2011, on the carried out management valuation, employee opinion survey, and the results of annual interviews the follow-up program of the development of the leadership skills was created – till the end of 2012 all the Company's executives participated in educational leadership training. The successors of key positions and talents (employees who demonstrate outstanding potential) also were involved in the trainings. In 2012, open trainings in Lithuania (external conferences, seminars) were attended by 858 employees.

The third type of LESTO trainings was internal training in the Company that were carried out by the employees themselves. Internal trainers taught the employees the particularities of a negotiations, communication with opinion leaders, stress management, MS Excel skills, project management, effective leadership, successful recruitment and administration, effective time management and other. There are 21 internal trainers and courses on 20 subjects. As in 2011, LESTO focuses on the efficient and high-quality customer service. The courses on these subjects were carried out for dispatchers and electricians of the operational teams of the Company. In the twelve months of 2012 the internal training involved 1492 participants.

In the course of preparation of the training programs and in order to ensure the quality of the training, close cooperation is promoted with training suppliers, ongoing training evaluation surveys are carried out.

In 2012 the model for competencies was developed that corresponds the company's values, culture and strategic objectives. The model will be integrated into the personnel management programs – employee selection, performance evaluation, training and other. In order to make the training organization process easier and faster, in 2012 special IT system was created.

Payment system

The introduced remuneration system has placed LESTO among other most innovative companies of the country that compensate their employees for work performed by the results achieved, the value created for the organization and the team. The remuneration system is formed by applying Hay Group methodology which guaranteed an objective job evaluation on the basis of appropriate education, problem complexity and level of responsibility that falls on a particular position. This system allows the Company to effectively manage the costs and ensures LESTO strategic objectives and business management logics be reflected in the payroll system.

Employee category	**Average gross wage, LTL**	**Average gross wage, LTL**	**Change, %**
	2012	**2011**	
Top-level managers	17,903	16,445	8.9
Middle-level managers and specialists	3,154	3,106	1.5
Workers	2,883	2,413	19.5
Total	3,156	2,986	5.7

Collective agreement

The collective agreement was passed at the Conference of LESTO employees on March 10, 2011. The purpose of this agreement is to ensure effective activities of the Company and represent the rights of all employees of the Company and their legitimate interests. The collective agreement specifies the scheme of remuneration of the employees, social, economic and occupational conditions and the guarantees that are not regulated by laws and other legal acts. The employees are offered additional guarantees (allowances in the cases of accidents, illness, death of immediate family members, birth of a child support, additional days of paid leave following the birth, marriage, and in other cases)

Internship

LESTO actively cooperates with educational institutions and allows university and college students to apply their theoretical knowledge and practical skills and to acquire practical skills from the Company's employees. In 2012, LESTO received 136 students for their internship. The Company received not only the student coming for the mandatory internship. The company was looking for motivated and enthusiastic students and provided the chosen ones with the opportunity to practice in the Company on a voluntary basis. If necessary, LESTO invites the former trainees to get employed in the Company. In 2012 seven former trainees joined the Company.

Customer Service

Customer Satisfaction

Customer satisfaction is measured through customer satisfaction survey once a year. In 2012 LESTO customer satisfaction index, calculated according to the methodology GSCI, was 10 points higher than the comparative GSCI index of European energy companies. LESTO scored the ratio of 75 points, while the average of European energy companies was 65 index points. The study shows that LESTO services and quality of service exceeding customer expectations. LESTO customer satisfaction survey was conducted in accordance with the Global Customer Satisfaction Index (GCSI) research methodology, which is based on the American Customer Satisfaction Index (ACSI). GCSI is a global franchise of ACSI research methodology. The survey consists of 17 questions, which are summarized into 6 groups of indicators: customer expectations, quality assessment, evaluation of perceived value, customer satisfaction, customer loyalty, customer complaints. LESTO customer satisfaction survey was carried out in September 4 – October 5 of 2012 by UAB SYNOPTICOM. The scope of the survey was 1107 private customers and 916 business customers.

The annual action plan is drawn up on basis of the study results. In, there have been implemented 50 measures in order to increase the customer satisfaction such as prompt customer information by SMS and e-mail about the works carried out, business customers support by phone 1802, new features in self-service website www.manoelektra.lt, the centralization of customer service functions.

LESTO regularly carries out a survey “The Customers' Voice”. The survey displays the customer opinion about service quality and the company, on the basis of the results, plans and implements activities on service quality improvement. The results of the fourth quarter of 2012 showed that the quality of LESTO customer service is increasing. Customers point out the problem solving and attentive and kind servicing as a strong sides of the service.

The Number of the Customers Serviced

At the end of 2012, LESTO had entered into more than 1.528 million contracts with private customers and more than 64.6 thousand contracts with commercial customers (in 2012 the number of contracts increased by 0.86 and 6.22 per cent respectively).

Service Channel Development

In recent years, there increased the number of customers using remote service channels (users of the self-service web site "My Electricity" and the customer service hotline 1802). The flow of electricity consumers in LESTO customer service centers in smaller towns is decreasing. As the customer needs are changing, the company consistently invests and expands the services which are supplied via telecommunication and Internet channels.

In 2012, the new customer portal of self-service web site "My Electricity" was expanded. In the end of 2012, 60 per cent of new customers were submitting applications by the online tool. In the fourth quarter of 2012, for the convenience of customers, additional services of self-service web site "My Electricity" were introduced: possibility to withdraw (download) adjustment acts (this functionality was used by 85 per cent business clients), the registration to the site has improved (unified private and business clients login and access data recovery).

The Company customers are actively using the Company services and information supplied. In 2012, the number of visitors of LESTO self-service site "My Electricity" (compared to 2011) has grown from 1.375 million up to 1.726 million, the number of unique visitors of the system has grown from 726 to 978 thousand. Information by the short customer service number 1802 was provided to more than 902 thousand customers (in 2011 information was provided to more than 730 thousand customers). More than 409 thousand customer referrals on various issues were received and solved. The growth was driven by the increasing use of short customer service phone number 1802. In 2012, about 322 thousand customers were serviced in customer service centers of five largest cities of Lithuania.

Maintenance and Development of Accounting for Electricity

During 2012, further developing the electricity metering equipment automation, the Company has added 2,438 electrical metering devices of electricity consumption of the business customers to an automated reading system, and currently by means of remote data scanning it receives the information from 17,773 energy metering devices which record the electric energy consumption of the customers. Electricity metering equipment automation has enabled automatically submit bills for electricity consumption for the clients, eliminating a need for customers to declare electricity consumption.

In 2012, the Company to new customers installed 21 901 electricity meters, of which 30 per cent were for a single-phase electricity metering in alternating current networks, and 70 per cent in three-phase networks, and 117,977 energy metering devices were replaced at the end of metrological verification period (3.49 per cent more compared with 2011). In order to have a high - level metrological protection by means of electric energy metering devices, that all interested parties could rely on the measurement results, the Company purchase new electronic electricity meters which are twice more accurate than the induction metering apparatus and are considerably more sensitive, also it purchases multi-meters which store detailed data and allow the customers to control consumption of electricity daily and monthly.

Customer Settlement Management

The customers now more often use electronic payment methods. 36 per cent of LESTO private clients make their payments online.

During the last quarter of 2012, LESTO encouraged the customers to choose modern methods of payment for electricity. The number of customers using the direct debit method got increased by 19 thousand. And the customers increasingly prefer payment plans "Home" and "Home Plus": by the end of December of 2012 20 thousand clients were using new payment plans.

Direct debit is getting one of the most popular means in Lithuania for the payment of the consumed electric energy when each month a regular amount is paid and it automatically is read from the customer's bank account. Already more than 140 thousand customers of LESTO are paying by direct debit. Each customer paying for electricity by direct debit is personally informed about the size of the individual payment. The LESTO customers who choose direct debit payment methods, at their request, have their payments recalculated after the periodic reading of their meters, and in the cases when the price of electricity is changed. Besides, the customers are free to determine themselves the most convenient payment date when the bill for the electricity consumed can be paid automatically.

The customers can declare the readings of electricity consumed at any time. Having declared the readings before the 20th day of a month, the payment is calculated according to the declared readings of the customer plus the average consumption of the rest days of the month. When the readings are declared from the 20th day to the end of the month, the payment is calculated according to the readings declared by the customer.

Market liberalization

On December 31, 2012, the independent supplier was chosen by 7,461 clients. On July 8, 2009, the Government of the Republic of Lithuania approved the Lithuanian electricity market development plan. In accordance with the plan, on December 31, 2012 an independent electricity supplier has been chosen by the following objects:

With permissible power of 400 kW and more – about 90 per cent;

With permissible power 100 kW and more – about 76 per cent;

With permissible power 30 kW and more – about 58 per cent;

With permissible power of less than 30 kW – about 18 per cent.

The remaining objects are further supplied with the electricity by the public supplier (LESTO).

Projects and initiatives on social responsibility

LESTO is a member of the Global Compact initiated by the United Nations, and submits the annual progress report, that is prepared in accordance with the Global Compact principles.

United Nations Development Programme (UNDP) and the National Responsible Business Network in Lithuania (NRBNL) invited LESTO to become the leading company of the NRBNL in 2013. NRBNL is socially responsible businesses unifying entity in Lithuania. The main network's mission is to promote responsible business ideas and their development as an essential condition for sustainable development in Lithuania.

The main goal of LESTO social responsibility activities is to cultivate the skills of safe and rational use of electricity in the society, to contribute to the conservation of energy resources and their environmental impact, therefore all social responsibility activities initiated and carried out by LESTO contribute to these objectives.

The Company responsibility while acting in the market included responsible behavior in cooperation with all concerned: customers, suppliers, contractors, state agencies. Particular attention was paid to the company customer service quality; it expanded the spectrum of the services that help you save time and money. Work with customers was based on the principles of respect, understanding of their needs, professional and expeditious decisions.

Environmental Projects

In the everyday activities, the Company encourages the application of the working tools which reduce labor expenditure and pollution, actively seeking for the ways how to reduce the negative impact of energy facilities to people and the environment. LESTO invests in environmentally friendly modern technology. LESTO while implementing the environmental projects attempt to reduce the negative impact of energy facilities to people and the environment and to encourage a wider public participation in the initiatives.

More than 400 workers of the electricity distribution network operator LESTO across Lithuania joined the initiative “Let’s Do It 2012" and collected more than 35,000 kilograms of various wastes, which pollute the environment by irresponsible people. AB LESTO invited people to behave responsibly throughout the year: to protect the environment, bring waste for recycling, rationally use the resources and electric power.

The Company continuously encourages customers to give up paper bills and billing books and move to a remote service channels or direct debit. Over 90 per cent of the Company's business customers have already switched to electronic billing. Direct debit agreement has already been signed over 140 thousand clients.

The Company has signed a contract with the Electrical and Electronic Equipment Manufacturers and Importers Association EEPA on the collection of energy saving bulbs, batteries and small electronics waste; for this purpose there were special boxes placed in 46 customer service centers of the Company. According to preliminary data LESTO collected about 500 kg of electronic waste.

In order to promote the use of environmentally friendly means of transport, AB LESTO invited a group of interested companies, public institutions and other organizations to develop the infrastructure for electric vehicles in Lithuania, to promote and support the development of environmentally friendly and energy-efficient technologies; there is no consensus on the subject in the country yet. It is expected that a group of companies will design and test the first pilot project of electric vehicles in Vilnius.

LESTO envisions great potential for future development of electric vehicles; energy - efficient new technologies and their installation in the automotive industry becomes more competitive on the market, especially in comparison with the old cars using traditional fossil-fuel.

Together with the relevant authorities the negotiations have been carried out for the use of Pollution Permits and the funding of other areas of electric vehicles that are important to the public.

In 2012, while implementing a Development Program project of the United Nations "Gateway: social and environmental business innovation", the Company decided to review its socially responsible activities through the prism of sustainable development and to involve the employees in this process. The project is carried out through the experts, i.e., a public institution "Environmental Innovation and Technology Center", where the lectures and debate have been attended by over 140 employees. The outcome of the project is the direction of sustainable development in the activities of AB LESTO social responsibility.

To the public

This year was commemorated the 120-year anniversary when the first electric light bulb was lightened in Lithuania, and on April 17, a professional holiday of workers in the energy sector was celebrated. As every year, AB LESTO invited the public to the educational events of the holiday. The anniversary has received particular public attention: the events, workshops, tours, which were organized in the Energy Museum, have been visited by more than 2,000 people.

On October 1 of 2012, in commemoration of the International Day of Older Persons, the Company invited seniors in the public libraries in 45 cities, where LESTO experts shared valuable information on how to reduce electric bills and get information about electricity supply and services, talked about energy saving bulbs and lighting myths and taught to use self-service website. LESTO invited seniors throughout the week to visit Lithuanian Energy and Technology Museum for free. In order to improve older people's education on current electricity related issues, LESTO started to cooperate with the only website in Lithuania for seniors www.draugauki.me.

LESTO implements three large-scale long-term projects on social responsibility: "Operation 2020", "To the extent required" and "Electro-Magic", they all are united by the involvement of active communities and target groups of the society.

“Operation 2020“

The long-term social initiative "Operation 2020" is used to promote responsible behavior with electric network equipment and to reduce the negative outcome arising from irresponsible or malevolent behavior of the population. The important part of "Operation 2020" was live meetings of LESTO staff with the local population of the regions. In 2012, there were active meetings of the LESTO employees with local self-government (administration, heads of local municipalities, police) promoting to find ways how to solve the most pressing population problems related to security, updating of electric network or lighting, and how to increase public responsibility.

During the project, an anonymous trust line +370 5 255 2555 of the electronic form "I want to declare" (www.lesto.lt) was made public in order to help clarify the power evaders or to inform about impaired network devices.

In 2012, there were received 95 calls of the population by the confidence line of LESTO, and 104 reports were received on the Internet. 8 calls and 12 Internet messages have proved out. These reports helped LESTO to exact the total 169.4 thousand LTL amount of losses previously incurred due to illegal actions.

In order to prevent thefts of the distribution network equipment LESTO cooperate with major infrastructure companies - TEO, AB, AB "Lithuanian Railways, Electronics collectors association (EEPA), Recycling Association (APĮA). In 2012 an agreement between companies was strengthened by new member Metal scrap buyers association. Companies agreed on common measures and working groups.

LESTO cooperates in good faith with the municipalities and the Chiefs. "The Association of Chiefs of Local Authorities of Lithuania " is the main partner in initiative “Operation 2020”, that is also dedicated to promoting citizenship and responsibility.

A Project on Rational Use of Electricity „To the Extent Required“

The promotion of rational use of energy is one of the priority directions of the social responsibility of the company, thus contributing to environmental sustainability and conservation of energy resources and to the obligations of the country pursuing the goals of the European Union climate change program.

The project is designated to promote and realize the ideas of rational use of energy resources in order to develop the traditions for a rational society. The aim is to find out rational energy consumption patterns in daily life and for business.

The company organized the second conference on rational use of energy for companies and organizations "Energy Efficiency Solutions - More Competitive Business." The conference where practical experience in implementation of sustainable solutions has been shared was visited by over 200 participants. 92 per cent of the participants that filled in the evaluation questionnaire of the event stated that their expectations were justified, and even 98 per cent indicated that they would participate in such an event again.

During the event, the companies were invited to join the "The Green Protocol". This is the company initiated agreement and the only of its kind; the companies confirm that they are familiar with sustainable ideas that promote rational use of electricity; they second the ideas and promise to apply them in practice. A regularly updated list of the companies is published in the project site www.tiekkiekreikia.lt (At the end of 2012 the "Green Protocol" has been signed by 107 companies).

While promoting a sustainable behavior in the environment, the Company has actively commemorated the "Earth Day". There was made an educational video about the sustainable use at home; together with the environmentally friendly program "Top 10" of the National Consumer Federation there was carried out a population survey on the rational use of electricity which showed that people are aware of sustainability opportunities but they are little concerned about.

AB LESTO also participated in the European Sustainable Energy Week 2012 in Lithuania. The Company expert on rational use of electricity participated in the popular web site video - conference and answered the questions of the visitors, and presented the options on rational use of energy. The web conference was organized together with the Lithuanian National Consumer Federation’s project “TOP-10”.

The visitors of the project site www.tiekkiekreikia.lt can find tips for sustainable consumption, ask questions and get advice from competent experts. The site was updated in 2012.

Educational Project for Children and Young People “Electro-Magic“

Youth-oriented educational initiative “Electro-Magic” is designed to educate children and young people on energy use, threats, and safety problems. The initiative aim is to encourage students to learn how to safely handle with electricity and electric facilities, to promote interest in responsible use of energy, environmental and sustainable development ideas. In 2012 „

Electro-Magic“ introduced an updated educational movie and a game about the origin of electricity and its way to the home of the population.

During the project LESTO cooperate with the Lithuanian schools and their communities. In the project site www.elektromagija.lt playful virtual characters tell about electricity, and children by playing interactive games acquire knowledge on safety, electricity threats and its potential. Site visitors are encouraged to join the creation of site contents: In 2012 a creative contest was organized – children were invited to create short stories about “Electro-Magic” country life and its characters.

At the end of the year LESTO published the third eco-Christmas contest - children were invited to design a 2013 calendar with environmentally-friendly activities in each month.

The company actively helped Nordic Council of Ministers Office (NORDEN) in Lithuania in creation of an interactive game "Battle for the Earth” (www.musisdelzemes.lt), the purpose which was to develop the habits of sustainable use of energy resources. LESTO AB prepared all informational content required for this game.

Natural heritage protection

LESTO together with the Lithuanian Ornithological Society and the Institute of Ecology for the Nature Research Center and the partners implement the project of the European Union Financial Instrument for the Environment LIFE + “The White Stork Protection in Lithuania. The stork nests built on the electricity poles are not safe either to birds or to people. When the storks touch the electrical wires they often get fatally injured; and LESTO incur losses due to electrical leakage and breaks in wires.

Therefore, the aim of the project is to ensure the protection of the white storks by installing special platforms on electric poles which were safe for birds and airlines. In 2012 LESTO installed 1,519 artificial stork nets on electricity poles, during the project LESTO installed a total of 3,259 artificial nets.

In July, the Company announced the photo contest "Stork Season", in which it was possible to win the opportunity to look at the Earth from a stork flight. 270 participants from all over Lithuania, that photographed the storks in their environment, competed in the contest, sending 588 photographs.

Estimation

In 2012, In Responsible Business Awards, AB LESTO was recognized as "The Best Socially Oriented Company of the Year 2011" in the category of large Lithuanian companies; it received The National Responsible Business Award. The prize was presented for the progress in development of community-based projects closely linked to the aspirations of the Company, and a systematic approach to the partnership.

UNDP office in Lithuania recommended to present LESTO socially responsible activity campaigns as the samples of good practice. The Project presentation is given in a world journal which was distributed at the largest conference on sustainable development Rio +20 (Rio de Janeiro, Brazil) of this year. The Conference, held on June 20-22, was already the fourth world summit where the issues on the world development and environment were addressed.

Clarity

LESTO properly fulfilled distribution activity unbundling requirements.

The National Control Commission for Prices and Energy (NCC) stated that Lithuania's electricity distribution network operator AB LESTO distribution activity separation is in accordance with the Law on Electricity paragraphs 1 and 3 of Article 54. That means, that distribution activity separation ensures the independence of distribution activity management and control from the activities of electricity transmission, supply and production, and the commercial interests of these activities.

According to 13 July, 2009 European Parliament and Council Directive 2009/72/EC (OJ 2009, L 211, p. 55) concerning common rules for the internal market in electricity, when the distribution system operator is part of a vertically integrated undertaking it shall be independent in terms of its organization and decision-making from the other activities not related to distribution.

INFORMATION ON THE ISSUER'S SECURITIES AND AUTHORISED CAPITAL

Authorised capital structure

Type of shares	Number of shares	Nominal value, LTL	Total nominal value, LTL	Share in authorized capital, %
Ordinary registered shares	603,944,593	1	603,944,593	100,00

There have been no changes in the Company's share capital in the accounting period and the share capital amounted to LTL 603,944,593.
All shares of the Company are fully paid.

Rights and obligations granted by shares

All ordinary registered shares grant the same rights. Property and non-property rights are defined in the law, other legal acts and Articles of Association.

Information on major transactions of associated parties – indicate the value of transactions, the nature of relations among associated parties, and other information on transactions necessary to understand the Company's financial situation, if such transactions are significant or have been concluded in unusual market Conditions

Information on transactions of associated parties is provided in clause 29 of the notes to the audited consolidated annual financial statements for 2012.

Significant agreements to which the Issuer is a party and which would come into effect, change or would be terminated if the control of the issuer changed, as well as effects thereof, except in cases where revelation thereof would cause considerable damage to the issuer due to the nature of such agreements

The Company has not entered into significant agreements which would come into effect, change or would be terminated if the control of the issuer changed.

Information about harmful transactions made by the Issuer during the reporting period, which had or might have negative impact for the Issuer's activity and (or) activity's results, also the information about transactions which are made in conflicts of interest among executives of the Issuer, controlling shareholders or other related parties duties and their private interests and (or) other duties. It is necessary to disclose significant agreements' meaning, conditions, format of conflicts of interests and their influence for the agreement.

During the reporting period the Issuer did not make ant harmful transactions (which do not meet company's objectives, existing normal market conditions, violate shareholders or other groups interests and other) and did not make any transactions made in conflicts of interest among executives of the Issuer, controlling shareholders or other related parties duties and their private interests and (or) other duties.

Procedure for amending the Articles of Association

The General Meeting of Shareholders has the right to amend the Articles of Association of LESTO and its subsidiaries.

Restrictions on the transfer of securities

No restrictions are imposed on the transfer of LESTO securities.

Subsidiaries

On December 31, 2012, subsidiaries of AB LESTO (NT Valdos, UAB and UAB “Elektros tinklo paslaugos”) had no directly or indirectly controlled share stakes in other companies.

Information about branches and representations

There are no branches and representations of the Company

Information about committees

There are no committees in the Company

Total number of shares acquired and the number and par value of own shares. Own shares as a percentage of the share capital

LESTO had no own shares prior to the accounting period and did not acquire any own shares in 2012.

The number of acquired and transferred own shares during the reporting period, their nominal value and the part of the share capital represented by such shares

The Company did not acquire or transfer its own shares in 2012.

Information on payment for own shares if these shares were acquired or transferred with charge

The Company did not acquire or transfer its own shares in 2012.

Reasons for acquisition of own shares in the accounting period

The Company did not acquire its own shares in 2012.

Shareholders

On December 31, 2011 the number of LESTO shareholders totalled – 7,739.

On December 31, 2012 number of LESTO shareholders amounted to 7,431.

Shareholders of AB Rytų skirstomieji tinklai and AB “VST” that owned shares on 27 December, 2010 became LESTO shareholders. According to reorganization terms, one AB “VST” share granted 68.21 of LESTO shares and one AB Rytų skirstomieji tinklai share – 0.71 of LESTO share.

LESTO number of shareholders according to countries, 2012-12-31

Country	Number of shareholders
Lithuania	7,232
Russia	49
Belarus	38
Estonia	36
United States	20
Latvia	14
Other	42
Total	**7,431**

Agreements between the shareholders which are known to the Issuer and due to which the securities transfer and/or voting rights may be subject to limitations

No agreements between the Company's shareholders due to which the securities transfer and/or voting rights may be subject to limitations are known to the Company.

Restrictions on voting rights

No restrictions on voting rights are known to the Company.

The Issuer's bodies authorities to issue and to buy shares

The decisions to issue or to buy the Issuer's shares can be made by General Meeting of Shareholders by the Republic of Lithuania law

Shareholders who owned more than 5 % of the issuer's authorized capital on 31 December, 2012.

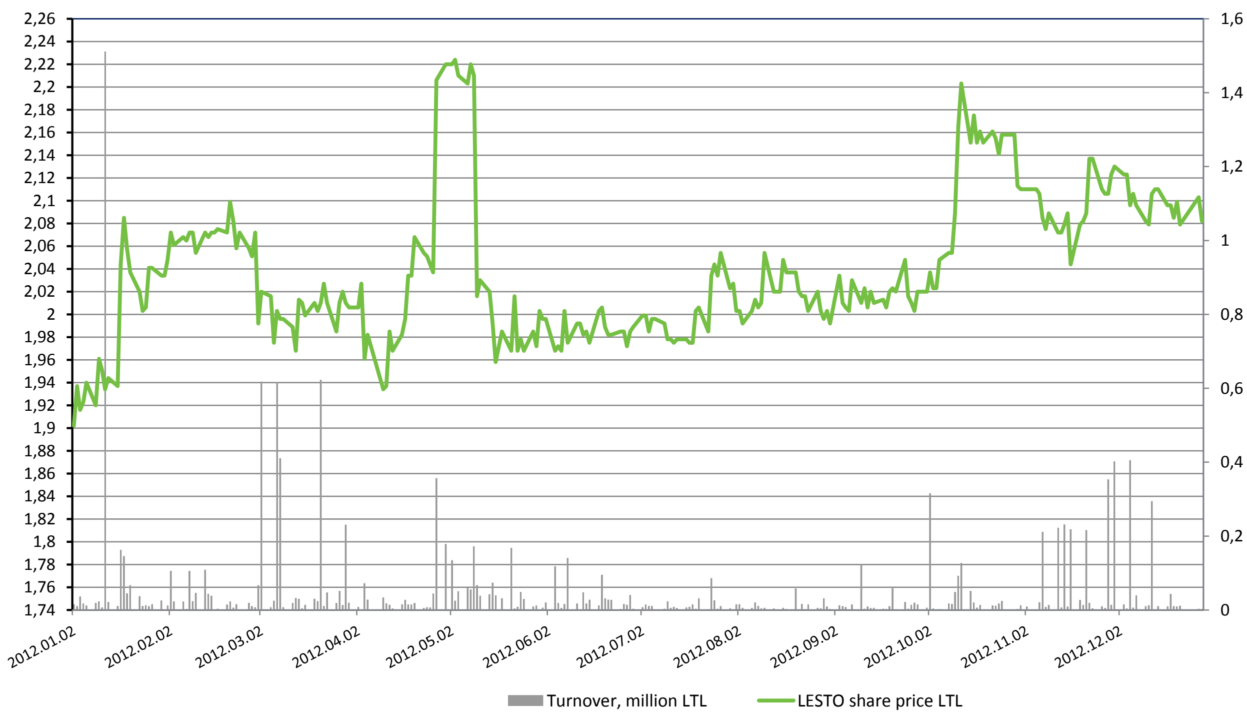
Full names of the shareholders (names of companies, types, headquarter addresses, company register code)	Number of ordinary registered shares	Share of authorized capital, %	Votes granted by shares owned, %
Visagino atominė elektrinė, UAB Žvejų str.14, Vilnius, company reg. No. 301844044	499,026,209	82.63	82.63
E.ON Ruhrgas International Gmbh, Brüsseler Platz 1 45131 Essen, Germany HRB No 21974	71,040,473	11.76	11.76

Information on issuer's securities

On 17 January, 2011 LESTO shares were included in the Main List of NASDAQ OMX Vilnius. LESTO shares are not traded in other regulated markets.

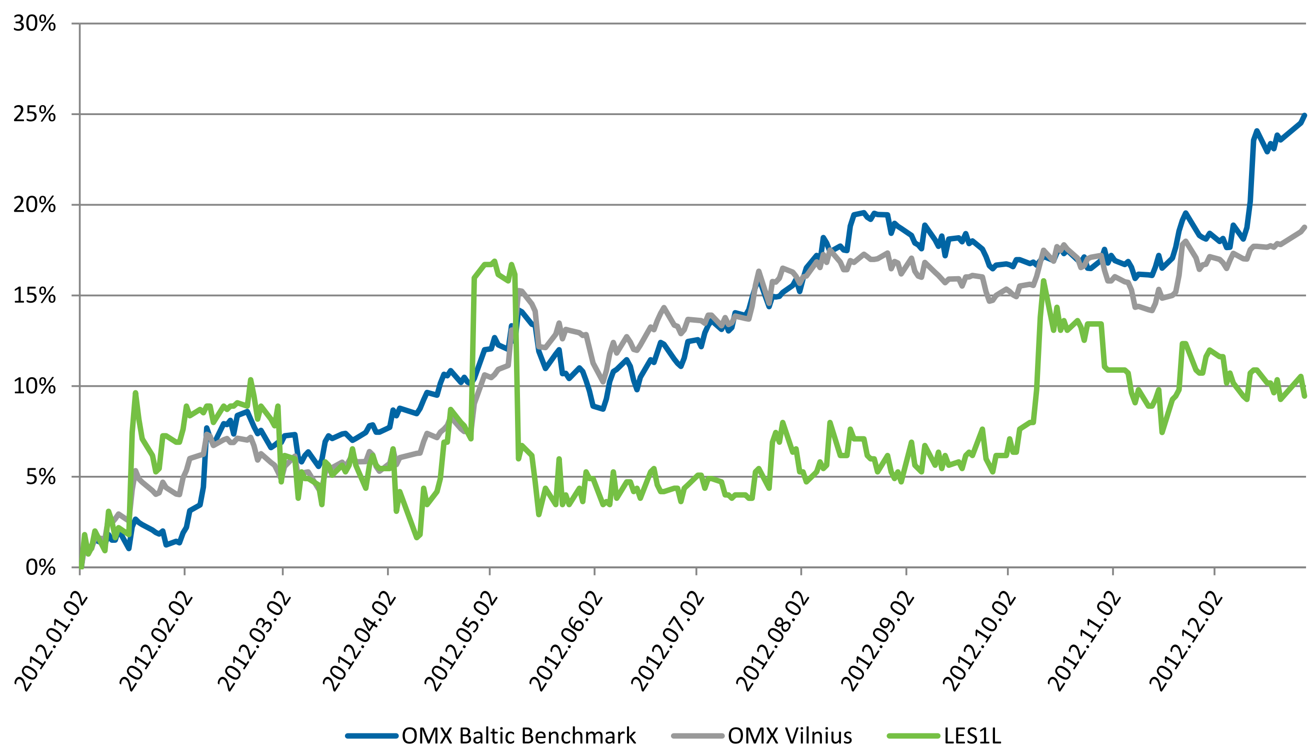
ISIN code	Trading list	Abbreviation of securities	Number of shares	Nominal value, LTL	Industry according to ICB standard	Supersector according to ICB standard
LT0000128449	BALTIC MAIN LIST	LES1L	603,944,593	1	7000 Utilities	7500 Utilities

LESTO share price dynamics and turnover, 31-12-2012



LESTO is one of the biggest companies by market capitalization in OMX Baltic securities exchange market. On 3 May, 2012 LESTO share price reached the highest point during the reporting period – LTL 2.22. LESTO share price reached the lowest point (LTL 1.90) on 2 January, 2012. During the reporting period LESTO share price increased by 9.44 %. On 28 December, 2012, the last trading day in the twelve months of 2012, the price of LESTO share was LTL 2.08. The average price of LESTO share during the reporting period – LTL 2.04.

Dynamics of LESTO share price, OMX Vilnius and OMX Baltic Benchmark indexes, 31-12-2012



LESTO shares are included in both OMX Vilnius and OMX Baltic Benchmark indexes. Index OMX Vilnius consists of all the shares listed on the Main and Secondary lists of the Vilnius exchange market. The weight of LESTO shares in this index contains 16.92%.

OMX Baltic Benchmark index consists of a portfolio of the largest and most traded shares, representing all sectors available on the NASDAQ OMX Baltic Market. LESTO represents the utility sector. Since the beginning of trading in LESTO shares until 28 December, 2012, the last trading day in the twelve months of 2012, index OMX Vilnius increased by 18.76%, OMX Baltic Benchmark increased by 24.92%, while price of LESTO share increased by 9.44 %.

Dividends

On 27 April, 2012 the decision to pay dividends for shareholders was adopted in Ordinary General Meeting of Shareholders. Profit allocation to pay out dividends was 170,312,375 LTL. Profit allocation to pay out dividends per share was 0.282 LTL.

LESTO securities account manager

“Swedbank”, AB is official manager of LESTO security account.

Contact details of Swedbank, AB:

Konstitucijos ave. 20 A, LT-03502 Vilnius

Tel. 1884, +370 5 268 4444, fax +370 5 258 2700.

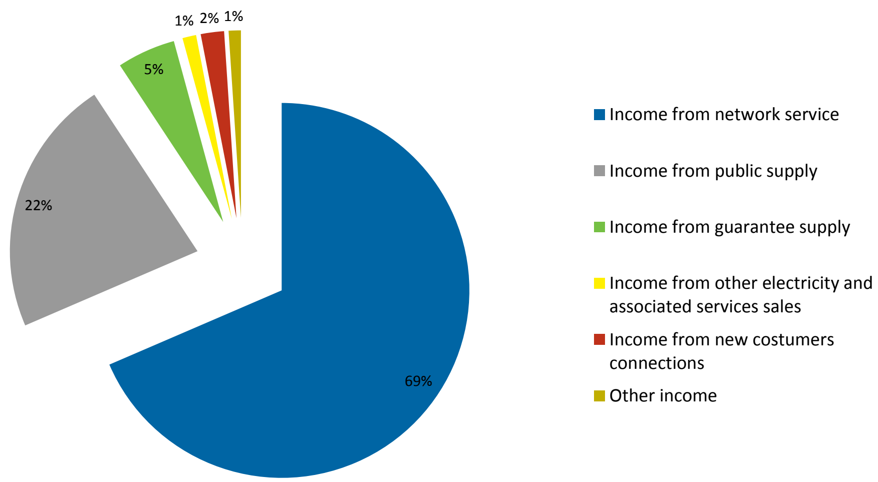
ANALYSIS OF PERFORMANCE RESULTS

Income, costs and profitability

LESTO group profitability ratios	2012	2011
Net profit margin, %	-2.00	-2.73
Operating profit margin, %	-2.02	-3.09
EBITDA, LTL thousand	390,964	362,246
EBITDA margin, %	17.12	16.13
ROA, %	-0.88	-1.16
ROE, %	-1.33	-1.68

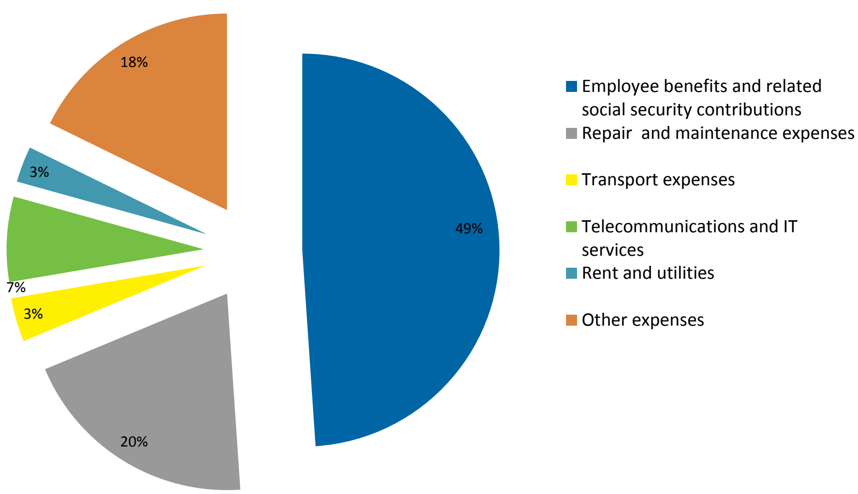
During the twelve months of 2012 LESTO group earned LTL 2,283.7 million, Company's income share made up 98.7% of group income i.e. LTL 2,253.1 million. Comparing with the twelve months of 2011 LESTO group income increased by 1.7 %.

LESTO income structure



The main source of Company's income is income from network service that made up 69% of total income, income from public supply service consisted 22%, income from guarantee supply for the customers that have not chosen independent supplier amounted to 5 % of Company's income. Income from connection of new customers, other electricity and associated services and income form other sources made up 4 %.

LESTO operating costs structure



During the reporting period, electricity purchase costs made up LTL 1,594.3 million i.e. 68.4% of total costs. Depreciation and amortization accounted to 17.5 % of total costs and the rest costs of the group that made up 14.1 % are classified as operating costs.

Other financial ratios and investments

LESTO group liquidity ratios	2012-12-31	2011-12-31
Current liquidity ratio	0.42	0.53
Acid test ratio	0.41	0.51
Cash liquidity ratio	0.05	0.12
Working capital, LTL thousand	-354,000	-251,258
Working capital to total assets ratio	-0.07	-0.05

LESTO group financial leverage ratios	2012-12-31	2011-12-31
Total liabilities to total assets ratio	0.34	0.31
Debt to assets ratio	0.11	0.08
Total liabilities to equity ratio	0.51	0.45
Debt to equity ratio	0.17	0.12
Net financial debt, LTL thousand	543,701	381,020
Net financial debt to equity ratio	0.16	0.10
Long-term debt to equity ratio	0.12	0.09
Equity to total liabilities ratio	1.97	2.22
Equity to total assets ratio	0.66	0.69
P/E ratio*	-	-
Capitalization, million LTL	1,257.44	1,167.77

* P/E ratio is not applicable if company reports loss

The value of LESTO group assets at the end of reporting period made up LTL 5,170.9 million. Non-current assets share in total assets was equal to 94.97%. From the beginning of the year value of LESTO group non-current assets shrank by 1.7 %. Cash with cash equivalents accounted to LTL 30.1 million i.e. 11.6% of total current assets.

Equity of LESTO group exceeded liabilities 1.97 fold. At the end of reporting period, financial debts made up LTL 576.8 million or 33.2% of total liabilities. Non-current borrowings were 395.6 million LTL and made up 68.8% of all borrowings. At the end of reporting period LESTO amounts payable within one year and current liabilities made up LTL 614.0 million.

Current liabilities exceeded current assets by LTL 354.0 million. Current liquidity ratio stood at 0.42. Inventories made up only 4.0 % of current assets, consequently acid test ratio do not differ significantly from current liquidity ratio. Financial debt reduced by the amount of the most liquid assets (short-term deposits and cash with cash equivalents) indicates net financial debt. Net financial debt of the LESTO group amounted to LTL 543.7 million and consisted only 15.8% of equity.

EBITDA of LESTO AB Group during the twelve months of 2012 was 390.96 mln. Lt - 7.93 % more than last year during the same period.

LESTO group results for the twelve months of 2012 is a net loss of 45.6 million LTL, it is 25.7 % less than 2011 twelve months net loss. LESTO activity is regulated, therefore the main loss reason is that depreciation and amortization costs in financial statements are higher than those which are set by regulator.

References and additional explanations of disclosures in the annual financial statements

Other information is presented in the Explanatory Notes to the Audited Financial Statements of AB LESTO for 2012.

RISKS AND RISK MANAGEMENT

Risk Management Policy

Company's risk management system is proved by COSO (committee of Sponsoring Organizations of the Treadway Commission) ERM (Enterprise Risk Management), AS/NZS ISO 31000:2009 (Risk management – Principles and guidelines), ISO/IEC 27005:2011 (Information technology – Security techniques – Information security risk management) principles.

The objectives of the Company's activity shall be understood in an extensive manner and shall cover the objectives of a general nature related to the vision, mission, values, and strategy of the Company as well as specific objectives related to implementation of the functions of individual structural divisions of the Company. Company's risk management is based on evaluation of potential negative impact on implementation of the objectives of the Company and planned activity results. Risk identification, analysis, evaluation and management are performed systematically according to documents which are approved by the Board: Risk management Policy, Risk management procedure and other internal legal act which are related with risk management.

Periodic risk identification and evaluation cycle when activity (process) results residual risk and risk management means intensification runs every year during activity targets planning. During this cycle risks which can have a negative impact on activity targets and results are set. Set risks are evaluated considering their chance of occurrence. For those risks which exceed risk tolerance limit risk management means are selected. Implementation of those means would decrease the probability or influence impact that risk impact on results and objectives would occur under risk tolerance limit. Also risks can be evaluated unplanned before taking a meaningful decision for Company or after meaningful change of internal or external situation. Risk management means are directed to risks avoidance, reduction, transferring and(or) assumption evaluating their influence to the Company's implementation of objectives, activity's continuity considering costs and effectiveness of means decreasing risks. All the risks which can critically affect Company's objectives and activities' continuity are sought to be controlled independent of their probability. Residual risk accordance to risk tolerance, occurrence of new risks or disappearance and accordance of implementation of risk management means to risk management plan are revised once in a quarter.

Risk management system is developed and risk controlling process is coordinated by Company's risk manager. The owner of the process or department, which results can be influenced by those risks, is responsible for setting the means, their influence analysis and evaluation for Company's activity process, proper plan of risk management means creation.

Risks in the Company's Activity and Management Thereof

The main types of risks which the Company encounters while carrying out its activity are as follows:

- strategic risk;
- electric energy supply malfunctioning risk;
- operational risk;
- legal compliance risk;
- reputational risk;
- financial risks: market risk (interest rate risk, foreign exchange risk, market products risk), credit risk, liquidity risk.

Strategic Risk Management

Strategic risk occurs due to unfavourable or improper business decisions, improper implementation of said decisions or due to insufficient response to political changes or changes of the legal acts or energy sector. Occurrence of this risk is influenced by macroeconomic and political risk factors.

An important macroeconomic risk factor is the price of electricity production (or import) developing on the market. The price has a direct impact on the cost of electricity. The cost of public supply is controlled and fixed irrespective of the cost of electricity existing on the market at the time.

Since 2010 the process of liberalization of the electricity market has been well under way when consumers started to benefit from an opportunity to freely choose an independent electricity supplier. For this reason LESTO loses a part of its income from the supply. The Company is planning to mitigate this risk by seeking to compensate the income decrease by consistent increase of income from the non-controlled business activity. In Strategy Plan 2012-2020 the Company intends to achieve the result of not less than 10 percent of net income from non-controlled activity by the year 2020. The Company's income and profit from transmission and supply are directly dependent on the electricity transmission/consumption scopes. The macroeconomic situation of the country has a direct impact on the electricity sales trends, trends of connection of new consumers' electrical equipment and clients' solvency. This risk is managed in a conservative manner by means of planning electricity consumption and sales income.

When operating and expanding the distribution network LESTO buys equipment and materials the prices whereof depend on the market trends. The costs of LESTO network operation and investments to the grid, which have an impact on the LESTO financial results, are dependent on the prices of said goods. In order to optimise investments and costs for network operation and development the Company applies the investment rating method based on objective criteria compliant with the Company's priorities subject to the electricity distribution network operation and development.

Political risk factors are also taken into account. Electricity distribution and supply procedure is regulated by the Law on Electricity of the Republic of Lithuania. Amendments of said law and other related legal acts may affect the LESTO activity and results. The governmental policy regarding electricity prices is also significant. Service prices are controlled, price caps are set and controlled by the National Control Commission For Prices and Energy. Results of the LESTO activity depend on said decisions. In order to mitigate the effect of said risk on business results the Company analyses international practice of energy company control and, if necessary, presents proposals to national legislative drafting bodies.

Management of Electric Energy Supply Malfunctioning Risk

One of the main factors describing the activity of the distribution network operator is reliability of electricity distribution assessed on the basis of the duration and frequency of disconnections per consumer (SAIDI, SAIFI). Due to unpredictable external factors such as natural disasters the following risks exist: reliable electricity supply may not be secured, LESTO will not receive planned income and elimination of relevant failures will result in additional operational costs. The Company has developed comprehensive emergency response procedures with respect to the management of said risk.

In order to increase the quality and reliability of supplied electricity LESTO intends to allocate a major part of its investments to renovation of distribution networks, reconstruction of electrical transformer substations and installation of new, long-term, modern electrical equipment compliant with the quality standards; LESTO looks for technological solutions which would help ensure continuous control of operating distribution network condition, prompt failure elimination and prevent electricity supply malfunctions.

When distributing electricity, the grid is subjected to electricity losses. These losses depend on technical characteristics of the distribution network, its optimal use and management of risks related to other electricity losses in the network. The Company's management focuses on the management of electricity losses in the network; it has established the standing commission for managing electricity losses in the network which discusses the loss reduction measures and drafts short-term and long-term plans of electricity loss reduction. In 2012 technological losses totalled to 7.8 % from amount of electricity received (in 2011 – 8.3%).

Operational Risk Management

The business/operational risk is the risk subject to the decrease of losses and/or prestige loss/trust which may be affected by external factors (e.g. natural disasters, main suppliers‘ operational occurrences, etc.) or internal factors (e.g. IT system malfunctions, lack of internal control, inefficient procedures, improper assignment of functions or responsibilities, etc.).

The business/operational risk management is based on determination and assessment of a potential negative effect on the Company‘s structural divisions and/or results of business processes, installation of risk management means and regular risk control. Identification and assessment of the Company‘s business risks are carried out on a regular basis as established by the Company‘s management. Risks determined and assessed during this cycle the complex probability and effect assessment whereof exceeds the tolerance limit are subject to the risk management measures designed to mitigate residual risk to the tolerable limits. When managing the risk the Company‘s managers aim at implementing proper organizational measures, installing information systems which support procedural and business processes the integrity whereof must secure installation of an appropriate internal control system. The following main internal control elements are applied in the Company: comparing data on performed operations in the primary systems with operation data in the accounting system, separation of business decision making and controlling functions, operation performance and accounting control procedures, limits of authorizations to make decisions and control thereof, “four-eyes” principles, adoption of collegial decisions subject to fundamental business processes, etc.

Legal Compliance Risk Management

The legal compliance risk is the risk subject to the decrease of losses and/or prestige loss/trust which may be affected by external factors (the Company‘s non-compliance with the requirements of legal acts of the Republic of Lithuania, the suppliers‘ failure to fulfill the contractual obligations, criminal acts of the third parties, etc.) or internal factors (e.g. actions of the Company‘s employees which are not compliant with the requirements of the Company’s internal regulations, actions of abuse or other illicit actions of the employees, etc.).

Legal and Administration Department is responsible for the legal compliance risk management. In order to mitigate the legal compliance risk the Company‘s lawyers participate in the processes of decision making, preparation of internal regulations and contract drafting jointly with the Company‘s management.

Reputational Risk Management

The Company seeks the highest reputational standards by carrying out the function of the electricity distributor, public and guarantee electricity supplier. This objective is reflected in the Company‘s mission, vision, strategic objectives and values. The managers of the Company focus on communicating the Company‘s mission, vision, values and strategic objectives to their employees. In addition, the Company is implementing a range of social projects which consolidate the image of the socially responsible Company.

Financial Risk Management

Market risk is loss or loss of future net income risk due to changes of interest rates, foreign exchange rates, shares or market products’ prices.

Liquidity risk is risk that Company will not be able to accomplish fulfill their financial commitments and (or) can be forced to sell their financial actives and incur losses due to liquidity in the market.
Credit risk is risk of losses that clients and(or) other parts will not be able to fulfill their commitments to the Company.

More detailed financial risks management is is provided in clause 27 of the notes to the audited consolidated annual financial statements for 2012.

Internal control system

On 3 March, 2011 shareholders of “Visagino atominė elektrinė”, UAB made the decisions to form an Audit Committee, approved regulating documents and defined that Audit Committee covers “Visagino atominė elektrinė”, UAB and it’s directly and indirectly controlled companies, including LESTO.
The main functions of Audit Committee:

- to observe Company’s and their subsidiaries procedures of financial reporting;
- to observe Company’s and their subsidiaries inner control and risk management system effectiveness, to perform these systems demand and relevance analysis and review;
- to observe how certified auditor and audit company follow independence and objectiveness principles, to provide recommendations;
- to observe Company’s and their subsidiaries audit processes, to evaluated audit effectiveness and administration reaction to recommendations which are presented to the leadership;
- to observe Company’s and their subsidiaries inner audit function’ effectiveness, to analyse those function demand and relevance, to provide recommendations for those questions like internal audit need, effectiveness and other, to initiate actions if needed.

LESTO has and Internal Audit Division established. The responsibility of this division includes systemic and through risk management and inner control, that help LESTO to achieve main goals.

Members of Audit Committee of “Visagino atominė elektrinė”, UAB:

Name, Surname	Capital held of the Issuer (%)	Term	Workplace
Vygantas Reifonas (independant member)	0	2011 m. March – 2015 m. March.	AB „Lietuvos draudimas“
Danielius Merkinas (independant member)	0	2011 m. March. – 2015 m. March	UAB „Nordnet“
Marius Garuckas (independant member)	0	2011 m. March. – 2015 m. March	UAB „GlaxoSmithKline Lietuva“

Lina Šmočiukienė resigned on 28 October, 2012 from the members of Audit Committee of “Visagino atominė elektrinė”, UAB,
In 31 December, 2012 Audit Committee of “Visagino atominė elektrinė”, UAB was combined by three of four members.

The main indications about internal control and risk management systems related to the preparation of consolidated financial statements

LESTO consolidated and the Company‘s financial statements are prepared according to International Financial Reporting Standards (IFRS) as adopted by the European Union.
Company’s risk management system is proved by COSO (committee of Sponsoring Organizations of the Treadway Commission) ERM (Enterprise Risk Management), AS/NZS ISO 31000:2009 (Risk management – Principles and guidelines), ISO/IEC 27005:2011 (Information technology – Security techniques – Information security risk management) principles.

"Four-eyes" principle is implemented when preparing the consolidated financial statements. Director of Accounting Department is responsible for the supervision of preparation and final revision of the consolidated financial statements. Also Audit Committee of "Visagino atominė elektrinė", UAB observes Company's and their subsidiaries procedures of financial reporting.

ESSENTIAL EVENTS

In implementing its duties according to the binding legislation that regulates the securities market, LESTO announces material events (as well as all further regulated information) for the whole of the European Union. Information published by the Company is available on its website www.lesto.lt and the website of NASDAQ OMX Vilnius AB at www.nasdaqomxbaltic.com.

LESTO essential events from 2012:

Date	Essential event
03-01-2012	Regarding the decisions of the Extraordinary General Meeting of Shareholders of LESTO AB and the decisions of the Board of LESTO AB
20-01-2012	AB LESTO Investor' Calendar 2012
08-02-2012	Regarding New Wording of Law on Electricity
29-02-2012	Preliminary unaudited operating results of LESTO AB company group for twelve months of 2011
16-03-2012	Regarding the Preparation of the Separation Plan of Electricity Distribution Activity[1]
30-03-2012	Regarding the Preparation of the Separation Plan of Electricity Distribution Activity[2]
03-04-2012	Regarding of the Ordinary General Meeting of Shareholders of LESTO AB
06-04-2012	Regarding the Separation of Electricity Distribution Activity
13-04-2012	Regarding supplement of agenda of Ordinary General Meeting of Shareholders of LESTO AB
27-04-2012	Decisions adopted in Ordinary General Meeting of Shareholders of LESTO AB on 27 April 2012.
27-04-2012	Annual information of LESTO AB company group of 2011
18-05-2012	AB LESTO Social responsibility report of 2011
25-05-2012	Regarding long-term loan agreement
30-05-2012	Regarding of the Extraordinary General Meeting of Shareholders of LESTO AB
31-05-2012	Preliminary unaudited operating results of LESTO AB company group for three months of 2012
21-06-2012	Regarding the decisions of the Extraordinary General Meeting of Shareholders of LESTO AB and the decisions of the Board
04-07-2012	Regarding the adoption of resolution of the Government of the Republic of Lithuania
26-07-2012	Regarding the Separation of Electricity Distribution Activity
31-08-2012	Preliminary unaudited operating results of LESTO AB company group for six months of 2012
28-09-2012	Regarding the Change of Indirectly Controlling Person
05-10-2012	Regarding the electricity distribution price caps and supply service price cap for 2013

[1] The National Control Commission for Prices and Energy has obligated AB LESTO to present to the Commission by 30 March 2012 a detailed description of the preferred method for separating operations and control from activities of the vertically-integrated undertaking that are not related to distribution, alongside with a detailed action plan.
[2] Following mandatory requirement set by the National Control Commission for Prices and Energy AB LESTO presented to the Commission a detailed action plan for separating operations and control from activities of the vertically-integrated undertaking that are not related to distribution.

12-10-2012	Regarding of the Extraordinary General Meeting of Shareholders of LESTO AB
12-10-2012	Regarding the public electricity price cap for 2013
06-11-2012	Regarding the decisions of the Extraordinary General Meeting of Shareholders of LESTO AB
09-11-2012	Regarding the prices of electricity transportation services and public electricity and their administration procedures and differentiation techniques for 2013
21-11-2012	Regarding the Publishing of Electricity Transportation Service and Public Electricity Prices
30-11-2012	Operating results of LESTO for nine months of 2012
21-12-2012	Regarding the public electricity price cap for 2013
28-12-2012	Regarding the Publishing of Electricity Transportation Service and Public Electricity Prices.
28-12-2012	Regarding resignation of the member of the Board of LESTO AB
02-01-2013	AB LESTO Investor' Calendar 2013
02-01-2013	CORRECTION: AB LESTO Investor' Calendar 2013
08-01-2013	Regarding the Acquisition of Shares of UAB „ELEKTROS TINKLO PASLAUGOS“ and Transfer of Shares of UAB „TETAS“
13-02-2013	AB LESTO information
14-02-2013	Regarding the adoption of resolution of the Government of the Republic of Lithuania
28-02-2013	Operating results of LESTO for twelve months of 2012
13-03-2013	Regarding the intention to sign long-term loan agreement

Events after financial statement formation date

On 7 January 2013, the Share Exchange Agreement was concluded between the Company and LITGRID AB. Under the latter agreement the Company disposed to LITGRID AB shares of associate TETAS UAB held by the right of ownership which represent 38.87% of TETAS UAB authorised share capital in exchange for shares of ELEKTROS TINKLO PASLAUGOS UAB being disposed by LITGRID AB which represent 25.03% of ELEKTROS TINKLO PASLAUGOS UAB authorised share capital. Following the acquisition of shares, the Company became the sole shareholder of ELEKTROS TINKLO PASLAUGOS UAB. The investment to Tetas UAB is transferred to assets held for sale in the Company's financial statements as at 31 December 2012.

In the implementation of Resolution No. 141 of 13 February 2013 of the Lithuanian Government *Regarding the Transfer of State-owned Shares* and amendment to Resolution No. 826 of 4 July 2012 of the Lithuanian Government *Regarding the Establishment of the Private Limited Liability Company and Investment of State-owned Assets*, state-owned shares of Visagino Atominė Elektrinė UAB (the major shareholder of the Company) previously possessed by the Ministry of Economy by the right of trust were transferred to the Ministry of Finance on 26 February 2013.

Other contractual agreements with auditors

Auditors, which conducted an audit of AB LESTO, also made a review of consolidated and the Company's condensed interim financial information for the first half of 2011 (unaudited) and provided documentation of pricing among associated parties in 2011.

Attachment to Annual Report

Form of disclosure of compliance with the Corporate Governance Code for companies listed on the regulated market

Following Part 3 of Article 21 of the Law on Securities of the Republic of Lithuania and Item 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, AB LESTO (in the comments hereinafter – the Company, LESTO) hereby discloses how it complies with the Corporate Governance Code for Companies Listed on the Regulated Market, as approved by the Board of AB NASDAQ OMX Vilnius, as well as with specific Principles of the Code. Where the Code or certain provisions thereof are not complied with, the non-complied provisions and the reasons for the non-compliance are specifically indicated.

PRINCIPLES / RECOMMENDATIONS	YES / NO / NOT APPLICABLE (NA)	COMMENT
Principle I. Basic Provisions **The key objective of the Company should be to operate in common interest of all the shareholders by ensuring continuous increase in the shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The key trends for the Company's development and the strategic guidelines are made available on the Company's website, in the Company's annual and interim reports.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's Board adopts the most important strategic decisions which determine the optimization of the shareholder value (optimization of the Company's business functions and structure, any other factors which make the Company's performance more efficient and which decrease its costs). The manager of the Company and the established by him/her Manager Council organize and execute the Company's economic and financial activities.
1.3. A company's supervisory and management bodies should act in close cooperation in order to attain maximum benefit for the company and its shareholders.	NA	The Company has no supervisory board, see the comment for Item 2.1. The Company sets up the Board which represents the shareholders' interests. The Company holds regular meetings, counsels, and strategic sessions of the Board where members of the Board are provided with information on the Company's performance on a regular basis.

1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (employees, creditors, suppliers, clients, and local community) involved in or related to the company's operation are duly respected.	Yes	The Company's management bodies respect the rights and interests of the persons involved in or associated with the Company's performance. 1. Ever since the Company's establishment, the Company has been cooperating and acting in social partnership with representatives of the Company's employees (allocates funds needed to perform under the Collective Agreement, to incentivize employees, etc.). 2. The Company fulfils the undertaken financial and any other liabilities to creditors. 3. Based on the findings of the client satisfaction research and the tendencies in the good international practice, the Company implements systemic means designed to improve the quality of servicing of the Company's clients. 4. The Company organizes social projects involving children, young people, local communities and other social groups. For more detailed information on the initiatives undertaken by the Company, please see the Company's website and the Annual Report.
Principle II. Corporate Governance Framework **The corporate governance framework should ensure strategic guidance of the Company, effective oversight of the Company's management bodies, appropriate balance and distribution of functions between the Company's bodies, protection of the shareholders' interests.**		
2.1. In addition to the obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general meeting of shareholders and a manager of the company, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. Setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability of and control over the manager of the company which, in its turn, facilitates a more efficient and transparent management process.	No	Based on the Company's Articles of Association the Company has no supervisory board, but the board of directors (hereinafter – the Board) and the manager of the Company. To assist the manager of the Company in organizing and executing the Company's economic and financial activities, the Manager Council has been established. The Manager Council consists of the Chief Executive Officer and Directors in charge of the Company's divisions (with the exclusion of the Director in charge of Internal Audit Division who attends Manager Council by observer rights).

2.2. A collegial management body is responsible for strategic management of the company; it also performs other key functions of corporate governance. A collegial supervisory body is responsible for effective supervision of the company's management bodies.	Yes No	The functions referred to in the Recommendation are performed by the Company's Board. The Company has no supervisory board; see the comment for Item 2.1.
2.3. Where a company chooses to form only one collegial body, it is recommended that this should be a supervisory body, i.e. the supervisory board. In such case, the supervisory board is responsible for effective monitoring of the functions performed by the manager of the company.	No	The Company has no supervisory board; see the comment for Item 2.1.
2.4. A collegial supervisory body elected by the general meeting of shareholders should be set up and should act in the manner defined in Principles III and IV. Should a company decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[3]	Yes / No	The recommendations provided for in Principles III and IV are not implemented at the Company to their full extent; however, the Company complies with all the requirements, as per legal acts, for setting up of a collegial body. It should be noted that the Company is involved in distribution of electricity and provision of public supply services so, therefore, its operation is governed in strict compliance with legal acts and monitored by relevant state institutions (the National Control Commission for Prices and Energy, etc.). This way, transparent and efficient decision-making process is ensured; the principles of non-discrimination of the Company's consumers, reduction of the Company's costs and other principles are observed. The Company has no supervisory board; see the comment for Item 2.1.

[3] Provisions of Principles III and IV are more applicable to those instances when the general meeting of shareholders elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the manager and to represent the company's shareholders. However, in case the company does not form the supervisory board but the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of management bodies applies to the extent it concerns the oversight of the manager of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to giving of recommendations to the manager of the company; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting of shareholders from the company's management bodies is applied to the extent it concerns independence from the manager of the company.

2.5. A company's management and supervisory bodies should be comprised of such number of board members (executive directors) and supervisory board members (non-executive directors) that no individual or small group of individuals could dominate decision-making on the part of these bodies.[4]	Yes	Based on Article 32 of the Company's Articles of Association, the Board shall consist of 5 (five) members. The Company is of the opinion that such number of the Board members is sufficient because it ensures prompt and efficient decision-making process. The Board decisions are adopted at Board meetings. The Board may adopt decisions and its meeting shall be deemed held when at least 4 (four) members of the Board are present at the meeting. The Company has no supervisory board; see the comment for Item 2.1.
2.6. Non-executive directors or members of supervisory board should be appointed for specified terms subject to individual re-election at maximum intervals provided for in the Lithuanian legislation in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status. The possibility to remove them from office should also be stipulated; however; this procedure should not be easier than the removal procedure for an executive director or a member of a management body.	NA	The Company has no supervisory board; see the comment for Item 2.1. The Company's Board is elected for the term of 4 (four) years. The term of office of the Company's Board members is the maximum allowable by the Law on Companies of the Republic of Lithuania. The General Meeting of Shareholders may recall both the entire Board and individual members thereof prior to the expiry of their term.
2.7. Chairman of a collegial body elected by the general meeting of shareholders may be a person whose current or past office constitutes no obstacle for him/her to conduct independent and impartial supervision. Should a company decide not to set up a supervisory board but the board, it is recommended that the chairman of the board and the manager of the company should be a different person. Former manager of the company should not be immediately nominated as the chairman of a collegial body elected by the general meeting of shareholders. When a company chooses not to observe these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Company's Board and the Chairman of the Board are elected in compliance with the requirements set in the Law on Companies of the Republic of Lithuania. The manager of the Company has not been elected the Chairman of the Board.
Principle III. Order of Formation of Collegial Body Elected by General Meeting of Shareholders **The order of formation a collegial body elected by the general meeting of shareholders of the Company should ensure representation by the Company of minority shareholders, accountability of this body to the shareholders and objective monitoring of the Company's operation and its management bodies[5] .**		

[4] Definitions *'executive director'* and *'non-executive director'* are used in cases when a company has only one collegial body.

[5] Attention should be drawn to the fact that in the situation where the collegial body elected by the general meeting of shareholders is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person management body, i.e. the manager of the company. This note shall apply to item 3.1 too.

3.1. The mechanism of formation of a collegial body elected by the general meeting of shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The Company's Board is elected by the Company's General Meeting of Shareholders in compliance with the requirements set in the Law on Companies of the Republic of Lithuania.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general meeting of shareholders so that the shareholders had sufficient time to decide on which candidate to vote. All factors likely to affect the candidate's independence (the sample list of which is set out in Recommendation 3.7) should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on a yearly basis, collect data provided in this Item on its members and disclose such in the company's annual report.	Yes / No	Information on the candidates for the Company's Board is presented to the shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders whose agenda includes consideration of the issue on election of the Board members; the information is not made public in advance. Based on Article 36 of the Company's Articles of Association, each candidate for the Board shall submit to the General Meeting of Shareholders his/her written consent to run for the Board and a declaration of the candidate's interests, specifying all the circumstances that may give rise to a conflict of interests between the candidate and the Company. Upon emergence of new circumstances that may give rise to a conflict of interests between a member of the Board and the Company, the member of the Board shall immediately notify the Company and the Board of such new circumstances in writing (see also the comment for Item 7.1). Information on the offices held by the members of the Board or their involvement in any other companies is collected, accumulated and disclosed in the annual report as well as the Company's website.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by disclosure of information on the candidate's competences relevant to his/her service on the collegial body. In order shareholders and investors can verify if the competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of its individual members which are relevant to their service on the collegial body.	Yes / No	Information on the candidates for the Company's Board members is presented to the General Meeting of Shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders (see the comment for Item 3.2). The information presented at the General Meeting of Shareholders covers the professional experience of and offices/positions held by the candidates, also any other information evidencing a candidate's competence. Information on the offices held by the members of the Board or their

		involvement in any other companies is collected, accumulated and disclosed in the annual report as well as on the Company's website.
3.4. In order to maintain a proper balance in terms of qualifications possessed by members of the collegial body, the composition of the collegial body should be determined with regard to the company's structure and activities, and be periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. Members of an audit committee, as a whole, should have recent knowledge on and relevant experience in the fields of finance, accounting and/or audit for stock exchange listed companies. At least one of the members of a remuneration committee should have knowledge on and experience in the field of remuneration policy.	No No No	Pursuant to the Law on Companies of the Republic of Lithuania, in cases where no supervisory board is formed, the board shall be elected and the qualification of its members shall be evaluated at the general meeting of shareholders. The Company has no audit committee, because Audit Committee is formed in patronizing company "Visagino atominė elektrinė", UAB. See the comment for Item 4.14. The Company has no remuneration committee, see the comment for Item 4.13.
3.5. All new members of the collegial body should be offered a tailored program meant to familiarize a member with his/her duties, corporate organization and activities. The collegial body should conduct annual review to identify the fields where its members need to update their skills and knowledge.	Yes / No	Newly elected members of the Company's Board are provided with the possibility to meet managers of the Company's structural divisions, to get familiar with the Company's activities. It should be noted that members of the Board are regularly informed on the Company's activities at the Board meetings as well as individually, at the members' request.

3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should be comprised of a sufficient[6] number of independent[7] members.	Yes	The Company's Articles of Association exclude the provision that certain number of independent members shall be elected members of the Board. Formation of the Board (and election of independent members to the Board) is subject to the competence of the participants of the General Meeting of Shareholders. At the moment of submission of the report, two of the four members of the Company's Board is a business representative not related to the enterprises and state institutions acting in the electricity sector and governing the activities within the electricity sector.
3.7. A member of the collegial body should be considered to be independent only if he/she is free of any business, family or other relationship with the company, its controlling shareholder or the management of either as this creates a conflict of interest likely to impair his/her judgment. Since all the cases when a member of the collegial body may become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices for solving of this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: He/she is not an executive director or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory board) of the company or any associated company and has not been acting in the capacity for the last five years; He/she is not an employee of the company or some associated company and has not been such for the last three years, except for the cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of employees;	Yes	At the moment of submission of the report, there are two independent members which meets independency criteria in this recommendation. See also the Comment for Item 3.6.

[6] The Code does not provide for a specific number of independent members to comprise a collegial body. Many codes in foreign countries fix a specific number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, with regard to the novelty of the institution of independent members in Lithuania and potential problems in finding as well as electing a specific number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[7] It should be noted that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

He/she is not receiving or has not been receiving significant additional remuneration from the company or any associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance-based pay systems; it does not include compensation payments for previous employment at the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); He/she is not a controlling shareholder or representative of such shareholder (*control* as defined in the Council Directive 83/349/EEC Article 1 Part 1); He/she does not have and has not had any material business relations with the company or any associated company within the past year directly or as a partner, shareholder, director or superior employee of the entity having such relationship. An entity is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; He/she is not and was not, during the last three years, a partner or employee of the current or former external audit company of the company or any associated company; He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; He/she has not been in the position of a member of the collegial body for more than 12 years; He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory board) or to any person listed in items 1 to 8 above. A close relative is considered to be a spouse (cohabitant), children and parents.		
3.8. The meaning of the concept *independence* is fundamentally an issue for the collegial body to determine itself. The collegial body may decide that, even though a particular member meets all the criteria for independence laid down in the Code, he/she cannot	Yes / No	Formation of the Board (and election of independent members to the Board) is subject to the competence of the participants of the General Meeting of Shareholders See the comment for Item

be considered independent due to special personal or company-related circumstances.		3.6.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body can be considered as independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more of the criteria for independence set out in the Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes / No	Formation of the Board (and election of independent members to the Board) is subject to the competence of the participants of the General Meeting of Shareholders See the comment for Item 3.6.
3.10. When one or more criteria for independence, as set out in the Code, have not been met throughout a year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes / No	See the comment for Item 3.9.
3.11. Members of the collegial body may be remunerated for their work and participation in the meetings of the collegial body from the company's funds[8]. The general meeting of shareholders should approve the amount of such remuneration.	Yes	Independent Members of the Board are remunerated for their activity in the Board according to the signed agreement of independent Member of the Board activity by determinate order and conditions. Based on the provisions of the Company's Articles of Association 16.1 article, which states additional general meeting of shareholders competence, the agreement for independent Member of the Board activity form and condition confirms general meeting of shareholders. Information about remuneration for independent Members of the Board is publish in the annual report. The payoffs are not set to the other members of the Board.

[8] It should be noted that currently it is not yet completely clear in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiemes) in the manner prescribed by Article 59 of the Law, i.e. from the company's profit. This wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiemes) should be the only form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

Principle IV. Duties and Liabilities of a Collegial Body Elected by a General Meeting of Shareholders **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general meeting of shareholders, and the powers granted to the collegial body should ensure effective monitoring[9] of the Company's management bodies and protection of interests of all the Company's shareholders.**		
4.1. A collegial body elected by the general meeting of shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and control system. The collegial body should issue recommendations to the company's management bodies and monitor as well as keep control over the company's management performance.[10]	Yes	The Company-elected Board presents to the General Meeting of Shareholders proposals regarding the Company's annual financial reports, draft profit (loss) appropriation and the Company's annual report, provides its evaluation of the performance by the manager of the Company, and performs other functions assigned to the Board's competence.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interest of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should: (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections in cases when a member considers a decision of the collegial body to be against the interests of the company. Should a collegial body have passed decisions which an independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, to a respective body (institution) not-pertaining to the company.	Yes	All members of the Board act in good will with respect to the Company, with due regard to the Company's interests and public welfare. It should be noted that, based on Article 46 of the Company's Articles of Association, a member of the Board shall have the right to express his/her opinion on all the issues included in the agenda of the meeting which is provided in the minutes of the Board meeting.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit any other professional obligations of his/hers (in particular directorships held in other companies) in a manner such do not interfere with proper performance of the duties of a member of the collegial body. In the event a member of the collegial body has attended less than a half[11] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified thereof.	Yes	Members of the Board are active participants of the meetings of the collegial body and devote sufficient time to perform their duties as members of the collegial body. The Board members attending the meeting are listed in the minutes of the meeting. Article 37 of the Company's Articles of Association provides that members of the Board may perform other functions or take other positions, including but not limited to managerial positions in other legal entities, civil or statutory service, positions in the

[9] See Footnote 3.
[10] See Footnote 3. In the event the collegial body elected by the general meeting of shareholders is the board, it should provide recommendations to the company's single-person management body – the manager of the company.
[11] It should be noted that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body attended less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation at the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

		Company, the Company's parent company and other legal entities in which the Company is a participant or to which the Company is a parent company), only upon prior notice thereof to the Board.
4.4. Where decisions of the collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role for members of the collegial body in their communication with and commitment to the shareholders.	Yes	The shareholders are informed on the Company's strategy, risk management and resolution of conflicts of interest in accordance with the procedure prescribed by legal acts. The Board members' communication with and commitment to the shareholders shall be established following the requirements set in the Law on Companies of the Republic of Lithuania.
4.5. It is recommended that transactions (except insignificant ones due to their low value or those concluded when carrying out the company's routine operations under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal entities that exert or may exert influence on the company's management should be subject to approval by the collegial body. The decision concerning approval of such transactions should be deemed adopted only in case the majority of the independent members of the collegial body voted in favour of such decision.	No	The Company's management bodies conclude transactions and approve such by observing the requirements set in legal acts and the Company's Articles of Association.
4.6. The collegial body should be independent when passing decisions that are significant for the company's operations and strategy. In addition, the collegial body should be independent of the company's management bodies[12]. Members of the collegial body should act and pass decisions without any outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative (as well as financial resources) to discharge their duties including the right to obtain – especially from employees of the company – all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of consultants or specialists to obtain information on market standards for remuneration systems, the remuneration committee should make sure the consultant does not at the same	Yes Yes No	When adopting decisions significant for the Company's operations and strategy, the Company's Board acts independently. The Company makes sure the Board is provided with the resources required for its activities (monitors technical aspects of the Board meetings, provides all the required information and performs other functions specified in the Board's Work Regulations). See the comment for Item 4.13.

[12] In the event the collegial body elected by the general meeting of shareholders is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the manager of the company.

time advise the human resources department, executive directors or collegial management bodies of the company.		
4.7. Activities of the collegial body should be organized in a manner enabling independent members of the collegial body to have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas are considered to be issues related to nomination of the company's directors, determination of remuneration to directors, and control as well as assessment of the company's audit. Therefore, when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[13]. Companies should ensure that the functions attributable to nomination, remuneration and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case, a company should explain in detail the reasons for its selection of the alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company be comprised of a small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets the composition requirements set for the committees and that adequate information is provided in this respect. In such case, the provisions of the Code pertaining to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No No	The Board functions and takes decisions by observing the requirements set in legal acts and the Company's Articles of Association The Company has none of the committees. The Company is of the opinion that the Board's work is effective enough and well organized; therefore, the Board may duly perform all the functions attributable to the committees. Pursuant to the Law on Audit of the Republic of Lithuania, a public interest entity which is a secondary enterprise and whose financial reports are subject to consolidation may default on the requirements to set up an audit committee, as prescribed by the Law on Audit of the Republic of Lithuania, in case its parent company has such. Because the parent company Visaginas Nuclear Power Plant Project has the Audit Committee, no separate audit committee is to be set up at the Company.
4.8. The key objective of the committees is to increase the efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work in the manner preventing the impact of material conflicts of interest on the collegial body's decisions. In their activities, the committees should exercise independent judgement and integrity, as well as present the collegial body with recommendations concerning the decisions to be made by the collegial body; however, the final decision shall be made by the collegial body itself. The recommendation on setting up of the committees is not meant to constrict the competence of the collegial body or to shift it onto the committees. The collegial body remains fully responsible for the decisions taken within	No	The Company has none of the committees. See the comments for Items 4.7, 4.12, 4.13, 4.14.

[13] The Law on Audit of the Republic of Lithuania (*Official Gazette*, 2008, No 82-53233) determines that an audit committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

the limits of its competence.		
4.9. Committees established by the collegial body should be composed of at least three members. At companies with a small number of members of the collegial body, such could exceptionally be composed of two members only. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to refresh committee membership and by making sure that no individuals are excessively relied upon.	No	The Company has none of the committees. See the comments for Items 4.7, 4.12, 4.13, 4.14.
4.10. The authorities of each of the committees should be determined by the collegial body. The committees should perform their duties in line with the authorities delegated to them, and inform the collegial body on their activities and performance on a regular basis. The authorities of each committee stipulating the role, rights and duties of the committee should be made public at least once a year (as a part of the information disclosed by the company annually about its corporate governance structures and practices). Companies should also include in their annual reports the statements by existing committees on their composition, number of meetings and attendance over the year, also on their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The Company has none of the committees. See the comments for Items 4.7, 4.12, 4.13, 4.14.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of a committee should commonly have the right to participate in the meetings of a committee only if invited by the committee. A committee may invite or demand participation in the meeting by particular officers or experts. Chairman of each of the committees should have a possibility of direct communication with the shareholders. The events for such communication should be specified in the regulations governing the committee's activities.	No	The Company has none of the committees. See the comments for Items 4.7, 4.12, 4.13, 4.14.

4.12. Nomination Committee. 4.12.1. Key functions of a nomination committee should be the following: 1) Select and recommend for consideration by the collegial body the candidates to fill in the vacancies in the management bodies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required for the particular office, as well as assess the expected time required to fulfil the commitment. A nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on a regular basis the structure, size, composition and performance of supervisory and management bodies, and make recommendations to the collegial body on the means to achieve the necessary changes; 3) Assess on a regular basis the skills, knowledge and experience of individual directors, and report on the assessment results to the collegial body; 4) Pay due attention to succession planning; 5) Review the policy of the management bodies regarding selection and appointment of senior management. 4.12.2. A nomination committee should consider the proposals put forward by other parties including the management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general meeting of shareholders is a supervisory board) and senior management, manager of the company should be consulted by entitling him/her to submit proposals to the nomination committee.	No	The Company has no nomination committee. See the comment for Item 4.7.
4.13. Remuneration Committee. 4.13.1. Key functions of a remuneration committee should be the following: 1) Make proposals on the remuneration policy for members of management bodies and executive directors to be approved by the collegial body. Such policy should cover all forms of compensation, including fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria aimed at proper alignment of the pay to executive director and members of the management bodies with the long-term interests of the shareholders and objectives set by the collegial body; 2) Make proposals to the collegial body on individual remunerations to executive directors and members of management bodies in order their remunerations are	No	The Company has no remuneration committee. See the comment for Item 4.7.

consistent with the company's remuneration policy and the evaluation of the performance by these persons. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from other associated companies; 3) Ensure that individual remuneration to an executive director or member of a management body is proportionate to the remuneration to other executive directors or members of management bodies as well as other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management bodies (including the policy regarding share-based remuneration), and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts with executive directors and members of the management bodies; 6) Assist the collegial body in monitoring how the company complies with applicable provisions regarding disclosure of remuneration-related information (in particular, the remuneration policy applied and individual remuneration to directors); 7) Give general recommendations to executive directors and members of the management bodies on the level and structure of remuneration to the senior management (as defined by the collegial body itself), also monitor the level and structure of remunerations to the senior management with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. When dealing with stock options and other share-based incentives which may be awarded to directors or other employees, the committee should: 1) Consider the general policy regarding awarding of the above mentioned incentive schemes by focusing on stock options, and make any related proposals to the collegial body; 2) Examine the related information provided in the company's annual report and documents intended for use at a shareholder meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares by specifying the reasons for its choice as well as the consequences thereof. 4.13.3. When dealing with issues attributable to the competence of a remuneration committee, the committee should at least address the chairman of the collegial body and/or manager of the company for their opinion on the remuneration to other executive directors or members of the management bodies. 4.13.4. A remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting of shareholders for this purpose.		

4.14. Audit Committee. 4.14.1. Key functions of an audit committee should be the following: 1) Observe the integrity of the financial information provided by the company by focusing on the relevance and consistency of the accounting methods used by the company and its group (including the criteria for consolidation of the sets of financial reports of the companies in the group); 2) At least once a year, review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks related to compliance with effective laws and regulations) are properly identified, managed and disclosed; 3) Ensure the efficiency of internal audit functions by *inter alia* making recommendations on the selection, appointment, reappointment and removal from office of the head of internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to the department's conclusions and recommendations. In case there is no internal audit authority in the company, the committee shall consider the need for such at least annually; 4) Make recommendations to the collegial body in relation to selection, appointment, reappointment and removal from office of the external auditor (to be done by the general meeting of shareholders) and to the terms and conditions of the contract with the auditor. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on actions required in such situations; 5) Monitor the independence and impartiality of the external auditor by verifying in particular the audit company's compliance with the requirements for rotation of audit partners; the level of fees paid by the company to the audit company, and similar issues shall also be verified. In order to prevent material conflicts of interest, the committee, based on the auditor's disclosed *inter alia* data on all remunerations paid by the company and its group to the audit company and its network, should at all times monitor the nature and extent of non-audit services. With regard to the principles and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy defining the non-audit services purchase of which from an audit company is: (a) impermissible, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Ensure the efficiency of external audit process and responsiveness of the management to recommendations made in the external auditor's letter to the management. 4.14.2. All members of the committee should be	No	See the comment for Item 4.7. Pursuant to the Law on Audit of the Republic of Lithuania, a public interest entity which is a secondary enterprise and whose financial reports are subject to consolidation may default on the requirements to set up an audit committee, as prescribed by the Law on Audit of the Republic of Lithuania, in case its parent company has formed such. Because the parent company Visaginas Nuclear Power Plant Project has the Audit Committee, no separate audit committee is to be set up at the Company.

furnished with complete information on the particulars of accounting, financial and other operations of the company. A company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting may be open to different approaches. In this case, special consideration should be given to the company's operations in offshore centres and/or the activities carried out through special purpose vehicles (organizations) and justification of such operations/activities. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, manager of the company, chief financial officer (or superior employees in charge of finances and accounting), internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled to, whenever needed, meet any relevant persons without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with the management, but also with free access to the collegial body. For this purpose, an audit committee should act as a principal contact for internal and external auditors. 4.14.5. An audit committee should be informed on the internal auditor's work program and be furnished with reports on internal audit or periodic summaries. An audit committee should also be informed on the work program of the external auditor, and be furnished with the report disclosing all relationships between the independent auditor and the company as well as its group. The committee should be furnished with the information on all issues arising from the audit in a timely manner. 4.14.6. An audit committee should verify whether the company complies with applicable provisions regarding the possibility for employees to file complaints or anonymously report alleged suspicions of significant irregularities at the company (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of such issues and for appropriate follow-up actions. 4.14.7. An audit committee should report on its activities to the collegial body at least once every six months, at the time the yearly and half-yearly statements are approved.		

4.15. Each year the collegial body should assess its own activities. The assessment should include evaluation of the collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and working efficiency, and the verification of whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	Yes	The Company's Board plans to perform the assessment of its own activities in 2013.
Principle V. Working Procedure of Company's Collegial Bodies **The working procedure of supervisory and management bodies established in the Company should ensure efficient operation of these bodies as well as decision-making, and encourage active co-operation between the Company's bodies.**		
5.1. A company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers the collegial bodies of both supervision and management) should be chaired by chairmen of these bodies. The chairman of a collegial body is responsible for proper convocation of the collegial body meetings. The chairman should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. He/she should also ensure appropriate conducting of the meetings of the collegial body, as well as order and working atmosphere during a meeting.	Yes	Based on the provisions of the Company's Articles of Association as well as the Board's Work Regulations and the existing practice, the Recommendation has been implemented at the Company.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out at certain intervals, according to a schedule approved in advance. Each company is free to decide how often to convene meetings of its collegial bodies, but it is recommended that these meetings should be convened at such intervals which would guarantee an interrupted resolution of essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once a quarter, and the company's board should meet at least once a month.[14]	Yes	Based on Article 43 of the Company's Articles of Association, meetings of the Board of the Company take place at least once per calendar quarter. Following the Board's Work Regulations, at the beginning of each calendar year, the Board develops a schedule for regular Board meetings. During 2012 there were twenty meetings of the Board. Members of the Board also participated in the counsels and strategic sessions.

[14] The frequency of meetings of the collegial body provided for in the Recommendation must be applied in those cases when both additional collegial bodies are formed at the company – the board and the supervisory board. In case only one additional collegial body is formed at the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once a quarter.

5.3. Members of a collegial body should be notified about a meeting being convened in advance to allow them with sufficient time for proper preparation for consideration of the issues on the agenda of the meeting and to ensure fruitful discussion leading to appropriate decisions. Alongside the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present at the meeting or certain issues of great importance to the company require immediate resolution.	Yes	Based on the Board's Work Regulations, members of the Board and invitees are notified of a meeting being convened no later than 5 (five) days in advance of the meeting; they are also provided with all the materials required in relation to the issues on the agenda of the meeting.
5.4. In order to co-ordinate the activities of the company's collegial bodies and ensure effective decision-making process, chairmen of the company's collegial bodies of supervision and management should closely cooperate by coordinating dates of the meetings being convened, their agendas and when resolving other issues of corporate governance. Members of a company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	NA	The only collegial body at the Company is the Board; therefore, coordination between collegial bodies is irrelevant.
Principle VI. Equitable Treatment of Shareholders and Shareholder Rights **The corporate governance framework should ensure equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that a company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's authorized capital consists exclusively of ordinary registers shares of the nominal value of 1 Litas which (shares) grant their holders equal property and non-property rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The rights granted by the shares are specified in the Company's Articles of Association which are posted on the Company's website.

6.3. Transactions that are important to the company and its shareholders, such as transfer, investment and pledge of the company's assets or any other type of encumbrance, should be subject to approval of the general meeting of shareholders[15]. All shareholders should be furnished with equal opportunity to get familiar with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The Company's transactions are concluded in accordance with the procedure established in the Law on Companies of the Republic of Lithuania and the Company's Articles of Association.
6.4. The procedures for convening and conducting of general meetings of shareholders should ensure equal opportunities for shareholders to participate at the meetings, and should not prejudice the rights and interests of the shareholders. The selected venue, date and time of the general meeting of shareholders should not hinder active attendance of the shareholders.	Yes	The Company convenes General Meetings of Shareholders and implements other meeting-related procedures in accordance with the procedure established in the Law on Companies of the Republic of Lithuania.
6.5. In order shareholders living abroad could exercise the right to get familiar with the information, it is recommended, whenever possible, that documents prepared for the general meeting of shareholders should be placed on the publicly accessible website of the company not only in the Lithuanian language, but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders, upon signing them, and/or the adopted resolutions should also be placed on the publicly accessible website of the company in the Lithuanian and English languages and / or in other foreign languages. Documents may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	The Company notifies of a General Meeting of Shareholders being convened and presents to shareholders any other documents pertaining to the General Meeting of Shareholders being convened in the manner and under the terms prescribed in the Law on Companies of the Republic of Lithuania. Decisions adopted at a General Meeting of Shareholders are posted on the Company's website in the Lithuanian and English languages.

[15] The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-term assets accounting for more than 1/20 of the company's authorised capital to the competence of the general meeting of shareholders. However, transactions that are important and material for the company's activity should be considered and approved by the general meeting of shareholders. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria for material transactions which are subject to the approval by the meeting. While establishing these criteria for material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of Paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

6.6. Shareholders should be provided with the possibility to vote in a general meeting of shareholders in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing a general voting ballot.	Yes	The Company's shareholders may exercise their right to attend the General Meeting of Shareholders both in person and by delegating a proxy in case the latter has been delegated due authorisations or an agreement on disposal of the voting right has been concluded with him/her in accordance with the procedure prescribed by legal acts. The Company does provide its shareholders with the possibility to vote by completing a general voting ballot, as per the Law on Companies of the Republic of Lithuania.
6.7. In order to increase the shareholders' opportunities to participate at shareholders meetings, companies are recommended to expand the use of modern technologies and, thereby, allow the shareholders to participate and vote at general meetings of shareholders via electronic means of communication. In such cases, security of transmitted information and a possibility to determine the identity of the participating and voting person should be guaranteed. Moreover, companies could provide their shareholders, especially those living abroad, with the possibility to watch shareholder meetings by means of modern technologies.	No	At the time being, the Company is of the opinion that there is no need for voting by means of telecommunication facilities, besides, this would require considerable investments. However, once requested by the shareholders and when reasonably possible, the Company would make it possible for the shareholders to vote by means of telecommunication facilities.
Principle VII. Avoidance and Disclosure of Conflicts of Interest **The corporate governance framework should encourage members of the Company's corporate bodies to avoid conflicts of interest and assure transparent as well as effective mechanism of disclosure of conflicts of interest regarding members of the Company's corporate bodies.**		

7.1. A member of a company's supervisory and management body should avoid a situation in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such situation did occur, the member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or the company's shareholders about the situation of a conflict of interest, indicate the nature of the conflict and the value, where possible.	Yes	The Company does observe the recommendations. Article 36 of the Company's Articles of Association provides that each candidate for the Board shall submit to the General Meeting of Shareholders his/her written consent to run for the Board and a declaration of the candidate's interests, specifying all the circumstances that may give rise to the conflict of interests between the candidate and the Company. Upon emergence of new circumstances that may give rise to conflict of interests between the member of the Board and the Company, the member of the Board shall promptly notify the Company and the Board of such new circumstances in writing. In addition, Article 37 of the Company's Articles of Association specifies that Members of the Board may perform other functions or take other positions including, without limitation, managerial positions in other legal entities, civil or statutory service, positions in the Company, the Company's parent company and other legal entities in which the Company is a participant or to which the Company is the parent company), only upon prior notice thereof to the Company's Board.
7.2. A member of a company's supervisory and management body may not mix the company's assets, use of which has not been specifically agreed upon with him/her, with his/her personal assets, or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior consent thereto of the general meeting of shareholders or any other corporate body authorized by the meeting.	Yes	The Company does observe the recommendations.
7.3. Any member of a company's supervisory and management body may conclude a transaction with the company a member of a corporate body of which he/she is. Such transaction (except for insignificant ones due to their low value or those concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this Recommendation are also subject to Recommendation 4.5.	Yes	The Company does observe the recommendations.

7.4. Any member of a company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	Based on Part 6 of Article 35 of the Law on Companies of the Republic of Lithuania, a members of the Company's Board shall not be entitled to vote when the meeting of the Board discusses the issue related to his/her work on the Board or the issue of his responsibility. In addition, based on legal acts, members of the Company's corporate bodies shall avoid the situation where their personal interests are or may be in conflict with the Company's interests.
Principle VIII. Company's Remuneration Policy **The remuneration policy and procedure for approval, revision and disclosure of directors' remuneration, as established in the Company, should prevent potential conflicts of interest as well as abuse in determining remuneration to directors; in addition, it should ensure publicity and transparency both of the Company's remuneration policy and the remuneration to directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easy to understand. This remuneration statement should be published not only as a part of the company's annual report buts also posted on the company's website.	No	Based on the practices observed at the Company, no remuneration policy and procedure for approval, revision and disclosure of the remuneration to directors, as well as no statement on the Company's remuneration policy is developed at the Company. This is not required under legal acts. General information on the Company's remuneration policy and average remuneration to individual employee groups is disclosed in the Company's annual report. Based on Part 5 of Article 25 of the Law on Energy of the Republic of Lithuania, the Company discloses the remuneration set for members of the Company's management bodies and any other payments related to management body members' functions.
8.2. A remuneration statement should mainly focus on directors' remuneration policy for the following and, if appropriate, the subsequent financial years. The statement should also overview the implementation of the remuneration policy in the previous financial year. Special attention should be paid to any significant changes in the company's remuneration policy in comparison to the previous financial year.	No	See the comment for Item 8.1. The Annual Report does not include the Company's directors' remuneration policy for the following and subsequent years. The Annual Report provides information on the monetary amounts calculated for the members of the Company's management bodies (remunerations, other payments, tantiems, and other payables from the profit).

8.3. A remuneration statement should at least include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance evaluation criteria that entitle directors to share options, shares or variable components of remuneration; 3) An explanation of how the selected performance criteria contribute to the long-term interests of the company; 4) An explanation of the methods applied to determine whether the performance evaluation criteria have been fulfilled; 5) Sufficient information on the periods of deferment of a variable component of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main criteria for awarding of and rationale for any annual bonus scheme and for any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information on the period of vesting of the rights to share-based remuneration, as referred to in Item 8.13; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in Item 8.15; 11) Sufficient information on the composition of similar groups of companies whose remuneration policy has been examined when establishing the remuneration policy for the company concerned; 12) A description of the main characteristics of the supplementary pension or early retirement schemes for directors; 13) A remuneration statement should not include any commercially sensitive information.	No	See the comment for Item 8.1. The Annual Report provides information on the monetary amounts calculated for the members of the Company's management bodies (remunerations, other payments, tantiems, other payables from the profit), the information on property/assets assigned and guarantees granted to members of the bodies, also any other information related with remuneration to members of the bodies.
8.4. A remuneration statement should also summarize and explain the company's policy regarding the terms of the contracts concluded with executive directors and members of the management bodies. It should include *inter alia* the information on the duration of contracts with executive directors and members of the management bodies, the applicable notification periods and detailed information on termination payments and any other pays linked to early termination of contracts with executive directors and members of the management bodies.	No	See the comment for Item 8.1.

8.5. A remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, awarded to individual directors over the relevant financial year. This document should list at least the information set out in Items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or work compensation related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services provided during the previous financial year inclusive of, where relevant, attendance fees fixed by the annual general meeting of shareholders; 2) The remuneration and advantages received from any enterprise belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were awarded; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each executive director or member of the management body upon his/her resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than those covered in items 1 to 5 above. 8.5.2. As regarding shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the previous financial year, and the conditions for exercise; 2) The number of share options exercised during the previous financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of the existing share options intended for the coming financial year. 8.5.3. The following information related to supplementary pension schemes should be disclosed: 1) Where the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under the scheme during the relevant financial year; 2) Where the pension scheme is a defined-contribution scheme, detailed information on contributions paid or	No	See the comment for Item 8.1.

payable by the company in respect of the director during the relevant financial year. 8.5.4. The statement should also provide the amounts that the company or a subsidiary company or an entity included in the company's set of consolidated annual financial reports has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees including any outstanding amounts and interest rate.		
8.6. Where a remuneration policy provides for variable components of remuneration, the companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to enable the company to withhold the variable part of remuneration in cases of failure to meet the performance evaluation criteria.	No	See the comment for Item 8.1.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance evaluation criteria.	No	See the comment for Item 8.1.
8.8. Where a variable component of remuneration is awarded, the major part of the variable remuneration component should be deferred for a reasonable period of time. The amount of the variable component subject to deferment should be determined in relation to the relative weight of the variable component by comparing such to the non-variable component of remuneration.	No	See the comment for Item 8.1.
8.9. Contractual arrangements with executive directors or members of management bodies should include a provision that permits the company to reclaim the variable component of remuneration that was awarded on the basis of the data which subsequently proved to be manifestly misstated.	No	See the comment for Item 8.1.
8.10. Termination payments should not exceed a fixed amount or fixed number of annual remunerations, and should, in general, not be higher than two-years' non-variable component of remuneration or the equivalent thereof.	No	See the comment for Item 8.1.
8.11. Termination payments should not be paid when the termination is due to poor performance.	No	See the comment for Item 8.1.

8.12. The information on preparatory and decision-making processes, during which the policy of remuneration to directors is established, should also be disclosed. The information should include the data, if applicable, on the authorities and composition of the remuneration committee, names and surnames of external consultants whose services were used when establishing the remuneration policy, as well as the role of the annual general meeting of shareholders.	No	See the comment for Item 8.1.
8.13. In cases where remuneration is based on awarding of shares, the right to shares should not be vested for at least three years after their award.	No	See the comment for Item 8.1.
8.14. Share options or any other rights to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of the right to shares and the right to exercise share options or any other rights to acquire shares or to be remunerated on the basis of share price movements should be subject to predetermined and measurable performance evaluation criteria.	No	See the comment for Item 8.1.
8.15. After vesting, directors should retain certain number of shares through to the end of their mandate, depending on the need to finance any costs related to acquisition of shares. The number of shares to be retained should be fixed; for example, twice the value of the total annual remuneration (the non-variable plus the variable components).	No	See the comment for Item 8.1.
8.16. Remuneration to non-executive directors or members of supervisory board should not include share options.	No	See the comment for Item 8.1.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings of shareholders and vote on issues regarding directors' remuneration.	No	See the comment for Item 8.1.
8.18. Without prejudice to the role of the bodies responsible for setting of directors' remunerations, the remuneration policy or any other significant change in the remuneration policy should be included into the agenda of the annual general meeting of shareholders. The remuneration statement should be put forward for voting in the annual general meeting of shareholders. The vote may be either mandatory or advisory.	No	See the comment for Item 8.1.

8.19. The schemes for remuneration to directors in shares, share options or any other rights to acquire shares or be remunerated on the basis of share price movements should be approved with a resolution of the annual general meeting of shareholders adopted prior to exercising the above. The approval of the scheme should deal with the scheme itself, and the shareholders should not decide on share-based benefits awarded to individual directors under the scheme. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their exercise; the approval resolution should be adopted at the annual general meeting of shareholders. In such cases, shareholders should be notified of all the terms of suggested changes and get an explanation on the impact of the suggested changes.	No	See the comment for Item 8.1.
8.20. The following issues should be subject to approval by the annual general meeting of shareholders: 1) Awarding of directors with remunerations under share-based schemes, including share options; 2) Determination of maximum number of shares and main conditions for share granting; 3) The term within which options can be exercised; 4) The conditions for each subsequent change in the price of exercise of options, if permitted by law; 5) Any other long-term incentive schemes for directors which are not available to other employees of the company under similar terms & conditions. The annual general meeting of shareholders should also set the deadline within which the body responsible for the remuneration to directors may award compensations listed in this Item to individual directors.	No	See the comment for Item 8.1.
8.21. Should national law or the company's articles of association allow, any discounted option arrangement entitling the subscription of shares at a price lower than the market price prevailing on the day of the price determination, or the average market price determined a few days in advance of the date when the exercise price is determined, should also be subject to the shareholders' approval.	No	See the comment for Item 8.1.
8.22. Provisions of Items 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to the company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved by the annual general meeting of shareholders.	No	See the comment for Item 8.1.

8.23. Prior to the annual general meeting of shareholders which is to consider the resolution stipulated in Item 8.19, the shareholders should be provided the possibility to get familiar with the draft resolution and the related notice (the documents should be posted on the company's website). The notice should contain the full text regarding the share-based remuneration schemes or a description of the key terms of the schemes, as well as full names of the participants in the schemes. The notice should also specify the relationship between the schemes and the overall remuneration policy of the directors. The draft resolution should have an express reference to the scheme itself or contain the summary of its key terms. Shareholders should also be presented with the information on how the company intends to procure the shares required to meet its obligations under the incentive schemes. It should be clearly stated whether the company intends to buy the required shares on the market, hold the shares in reserve or issue new ones. The statement should also view over the scheme-related expenses. The information given in this Item must be posted on the company's website.	No	See the comment for Item 8.1.
Principle IX. Role of Stakeholders in Corporate Governance **The corporate governance framework should recognize the rights of stakeholders, as established by law, and encourage active co-operation between the Company and stakeholders in creating the Company's value, workplaces and financial sustainability. For the purposes of this Principle, the concept 'stakeholders' includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders which are protected by law are respected.	Yes	The Company's corporate governance framework assures that the law-protected rights of the stakeholders are respected.
9.2. The corporate governance framework should make it possible for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	The Company does observe the recommendations. For example, consultations, negotiations, meetings and discussions are held with representatives of the Company's employees regarding the business optimization processes implemented at the Company. Based on the Company's Collective Agreement signed with representatives of the Company's employees, the Company shall inform representatives of the trade unions on the changes intended at the Company, the financial situation of the Company, etc. Stakeholders may get involved in the Company's management to the extent prescribed by law.

9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company does observe the recommendations.
Principle X. Information Disclosure **The corporate governance framework should ensure timely and accurate disclosure of all material information regarding the Company, including the financial situation, performance and governance of the Company.**		
10.1. A company should disclose information on: 1. The company's performance and results; 2. The company's objectives; 3. Persons holding by right of ownership or controlling of a block of shares in the company; 4. Members of the company's supervisory and management bodies, manager of the company and their remuneration; 5. Foreseeable material risk factors; 6. Transactions between the company and related persons, as well as transactions concluded outside the course of the company's regular operations; 7. Material issues regarding employees and other stakeholders; 8. Governance structure and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	The Company's annual report discloses information on the shareholders holding by right of ownership more than 5 percent of the issuer's authorized capital. The Company's annual report discloses information on members of the management bodies and the manager of the Company. Based on Part 5 of Article 25 of the Law on Energy of the Republic of Lithuania, the Company discloses the remuneration set for members of the Company's management bodies and any other payments related to management body members' functions. The information referred to in items 4 and 6 of this Recommendation is disclosed to the extent required under legal acts currently in effect and the requirements for development of annual financial reports. The Company discloses the information referred to in this Recommendation (with the exception of items 4 and 6 hereof) in the following ways: 1) in the manner prescribed by law for announcing material events (e.g. election of new members of management bodies, the Company's financial results); 2) on the Company's website (e.g. the Company's business objectives); 3) in the annual report (e.g. members of the Company's management bodies, foreseeable material risks).
10.2. When disclosing the information specified in item 1 of Recommendation 10.1, it is recommended to the company, which is a parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed.	Yes	The Company discloses information on consolidated performance results of the entire group of companies (i.e. LESTO and its subsidiaries).

10.3. When disclosing the information specified in item 4 of Recommendation 10.1, it is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, manager of the company, as well as any potential conflicts of interest that may have an effect on their decisions should be disclosed. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and manager of the company, as per Principle VIII.	Yes	The information specified in item 4 of Recommendation 10.1 is provided in the Company's annual report and on the Company's website. Based on Part 5 of Article 25 of the Law on Energy of the Republic of Lithuania, the Company discloses the remuneration set for members of the Company's management bodies and any other payments related to management body members' functions.
10.4. When disclosing the information specified in item 7 of Recommendation 10.1, it is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, schemes of employee participation in the company's share capital, etc. should be disclosed.	Yes	The information specified in item 7 of Recommendation 10.1 is disclosed to the extent required under legal acts of the Republic of Lithuania currently in effect. The information on the relations between the Company and the stakeholders is disclosed in press releases and on the Company's website.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to the information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange so that all the company's shareholders and investors had equal access to the information and could make informed investing decisions.	Yes	The Company discloses the information via the information disclosure system used by the Vilnius Stock Exchange in the Lithuanian and English languages both at a time. The Company observes the recommendation and announces its material events before or after a trading session on the Vilnius Stock Exchange, except for the cases provided for by legal acts. The Company does not disclose the information likely to impact the price of the issued by it securities in its comments, interviews or otherwise by the time such information is announced via the information system of the Stock Exchange.

10.6. The channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies, for instance, placing of information on the company's website, should be employed for wider dissemination of information. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	In addition to the method of information disclosure referred to Item 10.5, the Company uses a number of other means (the electronic edition for public announcements of the State Enterprise Center of Registers, news agencies, the publicly accessible internet website of the Company); all this is meant to ensure that the being-disseminated information reached as many as possible persons/entities concerned. The information disclosed on the Company's website is provided in the Lithuanian and English languages.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is also suggested for a company to announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company discloses on its website all the information specified in this Recommendation.
Principle XI. Selection of the Company's Auditor **The mechanism of selection of the Company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. Annual audit of a company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes/No	The Company's annual financial statements and the annual report are subject to independent audit. Audit firm also checks if financial information of consolidated annual report matches audited financial statements. The review of interim financial statements is made by audit firm.
11.2. It is recommended that a company's supervisory board and, where it is not set up, a company's board should propose a candidate firm of auditors to the general meeting of shareholders.	Yes	By determined order of Law on Public Procurement of the Republic of Lithuania an audit firm is selected, which the Company's Board proposes such to the General Meeting of Shareholders.
11.3. It is recommended that a company should disclose to its shareholders the fee paid to the firm of auditors for non-audit services rendered to the company. This information should also be known to the company's supervisory board and, where it is not formed, the company's board for its consideration of which firm of auditors to propose for the general meeting of shareholders.	Yes	The Company does observe the recommendations.