

LIETUVOS ELEKTRINĖ AB

**CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011
(UNAUDITED)**

2011-08-24 No SD-244

CONFIRMATION OF RESPONSIBLE PERSONS

Referring to the provisions of the Article 22 of the Law on Securities of the Republic of Lithuania and the Rules for the Drawing up and Submission of the Periodic and Additional Information of the Securities Commission of the Republic of Lithuania, we, the undersigned Dalius Misiūnas, CEO of Lietuvos energija, AB and Giedruolė Guobienė, Chief Financier of Lietuvos Energija, AB hereby confirm that, to the best of our knowledge, the interim consolidated financial statements for the period ended 30 June 2011 are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, give a true and fair view of the AB LIETUVOS ELEKTRINĖ assets, liabilities, financial position and profit for the relevant period.

Dalius Misiūnas



CEO

Giedruolė Guobienė

Chief Financier

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Note:


The accompanying document has been prepared in Lithuanian and in English. In all matters of interpretation of information, views or opinions, the Lithuanian version of this document takes precedence over the English version

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The condensed interim financial information was approved by the General Director and Chief Financial Officer of Lietuvos Energija, AB on 19 August 2011.



Darius Misiūnas
General Director of
Lietuvos Energija, AB



Giedrūolė Guobienė
Chief Financier of
Lietuvos Energija, AB



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.

Review report of condensed interim financial information

To the shareholders and Board of Directors of Lietuvos elektrinė, AB

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Lietuvos elektrinė AB (hereinafter "the Company") as of 30 June 2011 and the related condensed interim statements of comprehensive income, changes in equity and cash flows for the six – month period then ended, and condensed explanatory notes, set out on pages 5 - 21. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Financial Reporting Standards as adopted by the European Union applicable to interim financial reporting (International Accounting Standard (IAS) No. 34, "Interim financial reporting"). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

Except as explained in the following paragraphs, we conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion - scope limitation

As of 30 June 2011 and 31 December 2010 the Company has accounted for property, plant and equipment amounting to LTL 2,516,467 thousand and 2,345,456 thousand respectively using the estimated useful lives as disclosed in Note 2 of annual financial statements. The Company is operating in an industry experiencing technological change and therefore the estimated useful lives of property, plant and equipment should be reviewed on a regular basis as required by *IAS 16 Property, plant and equipment*. The Company has not performed such review since 2004. In addition, as explained in Note 3 to the interim financial information the Company has not estimated whether the recoverable amount of property, plant and equipment is not less than its carrying amount as required by *IAS 36 Impairment of assets*. Consequently, we were unable to obtain sufficient and appropriate evidence as to the carrying amounts of Company's property, plant and equipment as of 30 June 2011 and 31 December 2010.

As disclosed in Note 4, as of 30 June 2011 and 31 December 2010 the Company has accounted for lent out emission rights amounting to LTL 18,479 thousand and LTL 18,990 thousand under intangible assets. The Company is currently analysing the terms of these lending agreements, therefore we were unable to obtain sufficient and appropriate evidence as to the correctness of accounting of these emission rights as of 30 June 2011 and 31 December 2010.

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Basis for Qualified Conclusion - disagreement

As disclosed in Note 7, as of 30 June 2011 and 31 December 2010 the Company was not in compliance with certain debt financial covenants which permitted the lender to demand immediate repayment of borrowings. In our opinion, the classification of part of the borrowings as non-current is not compliant with IAS 1 *Presentation of Financial Statements*, which requires the liability to be classified as current at the reporting date unless the Company has an unconditional right to defer settlement of the liability for at least 12 month after the reporting date. Consequently, non-current borrowings should be reduced and current borrowings should be increased by LTL 526,207 thousand and by LTL 409,146 thousand for the Company as of 30 June 2011 and 31 December 2010 respectively.

Based on information provided to us by management, the Company has not accounted for a contract for purchase of emission rights that in our opinion has become onerous and should be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. If a provision for onerous contract was established at 30 June 2011 and 31 December 2010, liabilities would be increased by LTL 6,934 thousand and LTL 26,969 thousand respectively and net result for the six-month period ended 30 June 2011 would be increased by LTL 20,035 thousand. There is no effect on net result for the six month period ended 30 June 2010.

Qualified Conclusion

Based on our review, except for the possible effects of the matters described in the *Basis for Qualified Conclusion - Scope Limitation* section and except for the effects of the matters described in the *Basis for Qualified Conclusion- Disagreement* section, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union applicable to interim financial reporting (International Accounting Standard (IAS) No. 34, "Interim financial reporting").

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
22 August 2011

Rimvydas Jogėla
Auditor's Certificate No.000457

**CONDENCED INTERIM STATEMENT OF FINANCIAL POSITION
 AS AT 30 JUNE 2011**

(All amounts in LTL thousands unless otherwise stated)

ASSETS	Note	At 30 June 2011	At 31 December 2010
		(unaudited)	
Non-current assets			
Intangible assets	4	18,683	56,984
Property, plant and equipment	5	2,516,467	2,345,456
Prepayments for property, plant, equipment		14,261	43,562
Amounts receivable		714	756
Other financial assets		340	875
Total non-current assets		2,550,465	2,447,633
Current assets			
Inventories		123,671	125,470
Prepayments		942	751
Trade and other receivables		69,706	71,223
Prepaid income tax		4,469	-
Cash and cash equivalents		15,232	13,868
Total current assets		214,020	211,312
TOTAL ASSETS		2,764,485	2,658,945
Capital and reserves			
Share capital		145,801	145,801
Legal reserve		14,580	14,580
Other reserves		781,552	781,552
Retained earnings		94,886	88,092
Total equity		1,036,819	1,030,025
Non-current liabilities			
Grants	6	920,536	845,435
Borrowings	7	611,241	503,164
Other non-current accounts payable and liabilities		738	872
Deferred income tax liabilities		109,322	109,336
Total non-current liabilities		1,641,837	1,458,807
Current liabilities			
Borrowings	7	19,165	31,828
Trade payables		31,001	75,001
Advance amounts received		825	3,358
Income tax payable		-	490
Provisions for emission rights	8	11,700	54,212
Other accounts payable and liabilities		23,138	5,224
Total current liabilities		85,829	170,113
Total liabilities		1,727,666	1,628,920
TOTAL EQUITY AND LIABILITIES		2,764,485	2,658,945

The accompanying notes are an integral part of this condensed interim financial information.

LIETUVOS ELEKTRINĖ AB

Company code 110870933, Elektrinės g. 21, LT-26108 Elektrėnai

**CONDENCED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011**

(All amounts in LTL thousands unless otherwise stated)

	January - June	January - June
Note	2011	2010
	(unaudited)	(unaudited)
Revenue		
Sales revenue	201,496	378,585
Other operating income	487	1,457
	201,983	380,042
Operating expenses		
Purchase of fuel	(150,000)	(315,197)
Depreciation and amortisation	(16,386)	(13,828)
Salaries and related expenses	(10,475)	(19,055)
Expenses related to revaluation of emission rights and loss on sale	(6,206)	(4,201)
Repair and maintenance expenses	(1,877)	(3,035)
Impairment of inventories	(1,305)	-
Expenses related to provisions for emission rights utilised	(1,113)	(22,018)
Purchases of electricity or related services	(1,022)	(2,606)
Impairment of amounts receivable	(627)	-
Other expenses	(4,141)	(5,035)
Total operating expenses	(193,152)	(384,975)
OPERATING PROFIT (LOSS)	8,831	(4,933)
Finance income	256	32
Finance (costs)	(2,038)	(4,901)
PROFIT (LOSS) BEFORE INCOME TAX	7,049	(9,802)
Current year income tax expense	(269)	(3,645)
Deferred income tax income (expense)	14	2,537
PROFIT (LOSS) FOR THE PERIOD	6,794	(10,910)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	6,794	(10,910)
Earnings (deficit) per share, (in LTL)	0.05	(0.07)

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**CONDENCED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTH PERIOD ENDED 30 JUNE 2011**

(All amounts in LTL thousands unless otherwise stated)

	Note	April - June 2011	April - June 2010
		(unaudited)	(unaudited)
Revenue			
Sales revenue		106,422	154,420
Other operating income		239	1,210
		106,661	155,630
Operating expenses			
Purchase of fuel		(90,625)	(115,044)
Depreciation and amortisation		(7,021)	(7,036)
Salaries and related expenses		(4,641)	(10,810)
Expenses related to revaluation of emission rights and loss on sale		(4,555)	(3,372)
Repair and maintenance expenses		(1,002)	(1,429)
Purchases of electricity or related services		(734)	(334)
Impairment of amounts receivable		(627)	-
Impairment of inventories		(309)	-
Income/(expenses) related to provisions for emission rights utilised		497	(10,928)
Other expenses		(2,339)	(2,692)
Total operating expenses		(111,356)	(151,645)
OPERATING PROFIT (LOSS)		(4,695)	3,985
Finance income		83	(69)
Finance (costs)		(209)	(3,398)
		(4,821)	518
PROFIT (LOSS) BEFORE INCOME TAX			
Current year income tax expense		2,913	(4,876)
Deferred income tax income (expense)		632	1,858
PROFIT (LOSS) FOR THE PERIOD		(1,276)	(2,500)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD			
		(1,276)	(2,500)
Earnings (deficit) per share, (in LTL)		(0.01)	(0.02)

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**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011**

(All amounts in LTL thousands unless otherwise stated)

	Note	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 31 December 2009		145,801	13,710	781,646	93,603	1,034,760
Comprehensive income (loss)		-	-	-	(10,910)	(10,910)
Revaluation of emission rights utilised		-	-	(118)	118	-
Reserves established		-	870	-	(870)	-
Dividends		-	-	-	(10,210)	(10,210)
Balance at 30 June 2010		145,801	14,580	781,528	71,731	1,013,640
Balance at 31 December 2010		145,801	14,580	781,552	88,092	1,030,025
Comprehensive income (loss)		-	-	-	6,794	6,794
Balance at 30 June 2011		145,801	14,580	781,552	94,886	1,036,819

The accompanying notes are an integral part of this condensed interim financial information.

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**CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011**

(All amounts in LTL thousands unless otherwise stated)

	January - June 2011	January - June 2010
Note	(unaudited)	(unaudited)
Profit (loss) for the period	6,794	(10,910)
Adjustments for non-cash items:		
Depreciation and amortisation expenses	21,385	14,015
Expenses related to revaluation of and provisions for emission rights	6,209	4,201
Impairment of inventories and receivables	1,955	-
Income tax expenses	269	3,645
Change in deferred income tax liability	(14)	(2,537)
(Income) from grants	(5,000)	(187)
Expenses related to provisions for emission rights utilised	1,113	22,018
Gains/(losses) on disposal/write-off of non-current assets	67	144
Elimination of results of financing and investing activities:		
Effect of changes in foreign exchange rates, net	284	2,960
Interest income	(36)	(32)
Interest expense	1,220	1,941
Other finance (income) costs	314	-
Changes in working capital:		
(Increase) decrease in trade receivables and other amounts receivable	1,467	(49,392)
(Increase) decrease in inventories and prepayments	281	(119,498)
Increase in accounts payable and advance amounts received	11,641	37,216
Grants received	2,894	-
Cash generate from/(used in) operating activities	50,843	(96,416)
Income tax paid	(2,430)	-
Net cash generate from/(used in) operating activities	48,413	(96,416)
Cash flows from investing activities		
(Purchases) of property, plant and equipment (PPE) and intangible assets	(165,702)	(239,159)
Proceeds from sale of PPE and intangible assets	38,948	40,579
Interest received	36	32
Net cash used in investing activities	(126,718)	(198,548)
Cash flows from financing activities		
Proceeds from borrowings	117,061	174,635
Repayments of borrowings	(8,984)	(8,984)
Interest paid	(15,421)	(5,883)
Dividends paid	-	(10,088)
Other increases (decreases) in cash flows from financing activities	-	31
Net cash generated from financing activities	92,656	149,711
Net increase (decrease) in cash flows	14,351	(145,253)
Cash and cash equivalents (including overdraft) at beginning of the period	881	142,203
Cash and cash equivalents at end of the period	15,232	(3,050)

The accompanying notes are an integral part of this condensed interim financial information.

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**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE PERIOD ENDED 30 JUNE 2011**

(All amounts in LTL thousands unless otherwise stated)

1 General information

Pursuant to the Lithuanian Law No. VIII-1693 of 18 May 2000 on Reorganisation of the Special Purpose Public Company Lietuvos Energija, the special purpose public company Lietuvos Energija was reorganised through the spin-off as a result of which parts of assets, rights and obligations were separated from the special purpose public company Lietuvos Energija, which continued its activities after the reorganisation without the status of a special purpose company, and on the basis of the separated parts of assets, rights and obligations the following new companies were established: Lietuvos Elektrinė AB, Mažeikių Elektrinė AB, Rytų Skirstomieji Tinklai AB and Vakarų Skirstomieji Tinklai AB.

Pursuant to the Lithuanian Law on the Register of Companies, Lietuvos Elektrinė AB (hereafter "the Company") was registered on 31 December 2001 with the Ministry of Economy. In 2009, the Company was placed under the authority of the Ministry of Energy. As at 30 June 2011 and 31 December 2010, 95.54 per cent of the share capital of the Company was held by Lietuvos Energija AB which is controlled by the Lithuanian Ministry of Energy through Visagino Atominė Elektrinė UAB.

- Registration number: BĮ 01-249
- Company code: 110870933
- VAT payer's code: LT108709314
- Policy holder social security number: 853488
- Registered office: Elektrinės g. 21, Elektrėnai, Lithuania
- Authorised share capital: LTL 145,800,689
- The Company's main objectives: credible and efficient production of electricity and thermal energy

Prices of electricity generated by the Company are regulated by the State Commission for Prices and Energy. The purchase price for electricity produced by the Company, which is required to be purchased under the public service obligations (PSO) scheme, for 2011 was set by the Commission at 30.75 ct/kWh (excl. VAT) (2010: 29.31 ct/kWh (excl. VAT)).

The Company's financial year coincides with the calendar year. The period of economic, commercial activity is unlimited.

The shares of the Company are traded on the current trading list of Vilnius Stock Exchange.

On 5 August 2003, the Company was issued the license of an independent energy supplier of unlimited validity (unless it is withdrawn or cancelled). The Company has the right to supply electricity.

The Company has long-term contracts on the sale of thermal energy concluded with Kietaviškių Gausa AB and Elektrėnų Komunalinis Ūkis UAB.

Each year the Company enters into agreements for the supply of gas with suppliers. Gas prices are not fixed and denominated in the euros or the litas.

As at 30 June 2011, the Company had 402 (31 December 2010: 442) employees.

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**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE PERIOD ENDED 30 JUNE 2011**

(All amounts in LTL thousands unless otherwise stated)

2 Significant accounting policies**2.1. Basis of preparation**

This condensed interim financial information for the first half of 2011 has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34, 'Interim financial reporting').

The condensed interim financial information for the first half of 2011 should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (the EU).

2.2. Accounting policies

Except as described below, the accounting policies and calculation methods applied in the preparation of this condensed interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2010. These policies have been consistently applied to all the periods presented.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

a) New or amended standards and interpretations effective in 2011 that are relevant to the Company

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

The Company started to apply this standard from the financial period which started on 1 January 2011. The standard was applied retrospectively. The amended standard does not require government-related entities to disclose transactions and balances arising from these transactions, including off-balance sheet liabilities, conducted with the state or state related companies. The adoption of the standard did not significantly affect the disclosure of transactions with related parties and balances arising from these transactions in the condensed interim financial information.

Improvements to International Financial Reporting Standards (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011). Improvements did not have a significant impact on the Company's condensed interim financial information.

b) New standards, amendments to standards and interpretations effective in 2011, but not relevant to the Company

Classification of rights issues – Amendment to IAS 32, 'Financial instruments: Presentation'.

Prepayments of a minimum funding requirement – Amendment to IFRIC 14.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1.

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(All amounts in LTL thousands unless otherwise stated)

2.2 Accounting policies (continued)

c) New and amended standards, and interpretations that are mandatory for the Company's accounting periods beginning on or after 1 July 2011 and which the Company have not early adopted

IFRS 9, 'Financial instruments' (issued in November 2009; effective for annual periods beginning on or after 1 January 2013, with earlier application permitted; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Company does not expect the standard to have a significant impact on the financial statements.

IFRS 10, 'Consolidated financial statements' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard replaces all of the guidance on control and consolidation in IAS 27 'Consolidated and separate financial statements' and SIC-12 'Consolidation - special purpose entities'. 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. This standard will not have any impact on the Company's financial statement.

IFRS 11, 'Joint arrangements' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard 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 standard will not have any effect on the Fund's financial statements.

IFRS 12, 'Disclosure of interests in other entities' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 'Investments in associates'. IFRS 12 requires entities to disclose information that enables users of financial statements 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 judgements 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 standard will not have any effect on the Company's financial statements.

IFRS 13, 'Fair value measurement' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Company does not expect the standard to have a significant impact on the financial statements.

IAS 19 (revised 2011), 'Employee benefits' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The Company does not expect the standard to have a significant impact on the financial statements.

IAS 27 (revised 2011), 'Separate financial statements' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). This standard will not have any impact on the Company's financial statement.

IAS 28 (revised 2011), 'Investments in associates and joint ventures' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). This standard will not have any impact on the Company's financial statement.

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2.2 Accounting policies (continued)

Disclosures—Transfers of financial assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The Company does not expect the amendments to have a significant impact on the financial statements.

Deferred Tax: Recovery of underlying assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The Company does not expect the amendment to have a significant impact on the financial statements.

Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendment will not have any impact on the Company's financial statements.

Presentation of items of other comprehensive income – Amendment to IAS 1 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU). The Company does not expect the amendment to have a significant impact on the financial statements.

3 Critical accounting estimates and assumptions

The preparation of financial information in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. The areas where estimates are significant to this financial information include depreciation of and evaluation of impairment for property, plant and equipment, evaluation of impairment for accounts receivable, evaluation of provisions and measurement of inventories at their net realisable value. Future events may cause the assumptions used in arriving at the estimates to change. The effect of such changes in the estimates will be recorded in the financial statements when determined.

Underlying estimates and assumptions concerning the future that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in subsequent periods are addressed below.

Depreciation rates of property, plant and equipment

In assessing the remaining useful life of property, plant and equipment the Company's management takes into account the conclusions by the employees responsible for technical maintenance of non-current assets.

Impairment of property, plant and equipment

Each year property, plant and equipment is tested for impairment. The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. As at 30 June 2011 and 31 December 2010, the Company determined that no indications of impairment for property, plant and equipment existed in view of probable resolution of significant uncertainties relating to future electricity tariffs. These significant uncertainties are related to future electricity tariffs and their changes, regulated profit margins and also linked with changes regarding PSO electricity sales effective from February 2011 that will affect the production volume of the Company. According to new rules governing PSO electricity sales producers are paid for the actual annual quantity of electricity sold based on purchase prices established. Accordingly, the Company did not perform any impairment calculations in respect of property, plant and equipment and believes that impairment adjustments might be necessary after the resolution of these uncertainties.

Determination of impairment of trade and other receivables

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

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(All amounts in LTL thousands unless otherwise stated)

exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments.

Write-down of inventory to net realisable value

Write-down of inventory to net realisable value was determined based on the management's estimates on inventory obsolescence and prices of probable realisation. This determination requires significant judgement. These judgements are based on the past and future estimated use of spare parts and materials, their probable selling prices and other factors. The methodology of determination of inventory impairment is consistent with that applied by the parent company Lietuvos Energija AB.

Tax audits

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

Provisions for the utilisation of emission rights

Provisions for emission rights are estimated based on the quantity of actual emissions released to the environment during the reporting period multiplying this quantity by the market price of one emission allowance. The quantity of actual emissions is approved by a responsible state-controlled agency over the course of four months after the end of the year. Based on historic experience, the Company's management does not expect any significant differences to arise between the estimated provision at 30 June 2011 and the quantity of emissions which will be approved in 2012.

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4 Intangible assets

The structure of the Company's intangible assets as at 30 June 2011 and 31 December 2009 is as follows:

	Computer software	Emission rights	Total
At 31 December 2009			
Cost / revalued amount	413	27,199	27,612
Accumulated amortisation	(351)	-	(351)
Net book amount at 31 December 2009	62	27,199	27,261
Period ended 30 June 2010			
Opening net book amount	62	27,199	27,261
Additions	-	31,755	31,755
Grant received	-	22,946	22,946
Disposals	-	(40,579)	(40,579)
Emission rights utilised	-	(26,909)	(26,909)
Amortisation charge	(23)	-	(23)
Expenses related to revaluation	-	(4,201)	(4,201)
Net book amount at 30 June 2010	39	10,211	10,250
At 30 June 2010			
Cost / revalued amount	413	10,211	10,624
Accumulated amortisation	(374)	-	(374)
Net book amount at 30 June 2010	39	10,211	10,250
At 31 December 2010			
Cost / revalued amount	462	56,864	57,326
Accumulated amortisation	(342)	-	(342)
Net book amount at 31 December 2010	120	56,864	56,984
Period ended 30 June 2011			
Opening net book amount	120	56,864	56,984
Additions	8	34,390	34,398
Grant received	-	26,701	26,701
Disposals	-	(38,948)	(38,948)
Emission rights utilised	-	(54,212)	(54,212)
Amortisation charge	(31)	-	(31)
Loss on sale	-	(2,102)	(2,102)
Expenses related to revaluation	-	(4,107)	(4,107)
Net book amount at 30 June 2011	97	18,586	18,683
At 30 June 2011			
Cost / revalued amount	470	18,586	19,056
Accumulated amortisation	(373)	-	(373)
Net book amount at 30 June 2011	97	18,586	18,683

As at 30 June 2011, the use of 400,000 units of emission allowances with the value of LTL 18,479 thousand (31 December 2010: LTL 18,990 thousand) were lent out according to the terms and conditions of the lending agreement of 1 December 2009 concluded with STX Services BV.

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5 Property, plant, and equipment

The structure of the Company's property, plant and equipment as at 30 June 2011 and 31 December 2010 is as follows:

	Buildings and structures	Machinery and equipment	Motor vehicles	Other PP&E	Construction in progress	Total
Net book amount at 31 December 2009						
Deemed cost / cost	216,918	890,988	2,964	272,705	721,960	2,105,535
Accumulated depreciation	(59,207)	(308,552)	(2,012)	(60,661)	-	(430,432)
Net book amount at 31 December 2009	157,711	582,436	952	212,044	721,960	1,675,103
Period ended 30 June 2010						
Opening net book amount	157,711	582,436	952	212,044	721,960	1,675,103
Additions	-	-	32	5,761	320,453	326,246
Depreciation charge	(1,524)	(9,119)	(62)	(3,287)	-	(13,992)
Write-offs	-	-	-	(143)	-	(143)
Reclassifications between groups	-	999	-	115,653	(116,652)	-
Net book amount at 30 June 2010	156,187	574,316	922	330,028	925,761	1,987,214
At 30 June 2010						
Deemed cost / cost	216,918	891,987	2,996	393,976	925,761	2,431,638
Accumulated depreciation	(60,731)	(317,671)	(2,074)	(63,948)	-	(444,424)
Net book amount at 30 June 2010	156,187	574,316	922	330,028	925,761	1,987,214
Net book amount at 31 December 2010						
Deemed cost / cost	243,759	898,196	2,996	758,464	899,547	2,802,962
Accumulated depreciation	(62,075)	(325,621)	(2,137)	(67,673)	-	(457,506)
Net book amount at 31 December 2010	181,684	572,575	859	690,791	899,547	2,345,456
Period ended 30 June 2011						
Opening net book amount	181,684	572,575	859	690,791	899,547	2,345,456
Additions	-	-	-	628	191,804	192,432
Depreciation charge	(1,730)	(9,091)	(58)	(10,475)	-	(21,354)
Write-offs	-	-	-	(67)	-	(67)
Net book amount at 30 June 2011	179,954	563,484	801	680,877	1,091,351	2,516,467
At 30 June 2011						
Deemed cost / cost	243,759	898,196	2,996	759,025	1,091,351	2,995,327
Accumulated depreciation	(63,805)	(334,712)	(2,195)	(78,148)	-	(478,860)
Net book amount at 30 June 2011	179,954	563,484	801	680,877	1,091,351	2,516,467

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6 Grants

Balances of grants as at 30 June 2011 and 31 December 2010 and their use during the reporting period are as follows:

	Grants relating to assets (fuel combustion facilities and other assets)	Grants relating to assets (projects on restoration and improvement of environmental and safety standards)	Grants relating to emission rights	Total
Balance at 31 December 2009	1,383	717,322	-	718,705
Depreciation of property, plant and equipment	(187)		-	(187)
Grants received	-	123,624	22,946	146,570
Emission rights utilised	-	-	(12,743)	(12,743)
Balance at 30 June 2010	1,196	840,946	10,203	852,345
Balance at 31 December 2010	401	845,034	-	845,435
Depreciation of property, plant and equipment	(186)	(4,814)	-	(5,000)
Grants received	-	63,987	26,701	90,688
Grants utilised	-	-	(10,587)	(10,587)
Balance at 30 June 2011	215	904,207	16,114	920,536

During the first half of 2011, grants relating to assets decreased by LTL 5,000 thousand (first half of 2010: LTL 187 thousand), i.e. by the depreciation charge of property, plant and equipment. For the purpose of the statement of comprehensive income, depreciation expenses of property, plant and equipment were reduced by this amount.

During the first half of 2011, the Company was allocated LTL 63,987 thousand (LTL 1,021 thousand of which was allocated to finance the implementation of the environmental project and LTL 62,966 thousand was allocated for the construction of a new block of 400 MW combined cycle gas turbine) from the International Foundation for the Support of Decommissioning of Ignalina Nuclear Power Plant. During the first half of 2010, the allocation from the Foundation amounted to LTL 123,624 thousand (LTL 16,741 thousand of which was used for the implementation of the project on the construction of facilities for the removal of sulphur dioxide from emissions and catching of particulate matter and a portion of this amount of LTL 106,883 thousand was used to finance the construction of a new block of 400 MW combined cycle gas turbine).

In 2010, the Company received a grant of LTL 5,795 thousand from the International Foundation for the Support of Decommissioning of Ignalina Nuclear Power Plant for the performance of research works relating to the construction of the underground gas storage facility. During the first half of 2011, the received portion of the grant amounted to LTL 2,697 thousand. The remaining portion of the grant of LTL 197 thousand will be received in 2011.

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7 Borrowings

As at 30 June 2011 and 31 December 2010, bank borrowings comprised as follows:

	At 30 June 2011	At 31 December 2010
Non-current borrowings		
Syndicated loan (Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc, Lithuania Branch and DnB NORD AB, Danske Bank A/S) in EUR, to be repaid by 3 June 2016	281,058	217,625
Loan from the European Bank for Reconstruction and Development, in EUR, to be repaid by 18 February 2025	245,149	191,521
Syndicated loan (Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc, Lithuania Branch and DnB NORD AB) in EUR, to be repaid by 9 November 2020	81,320	88,447
Loan from DnB NORD AB, in EUR, to be repaid by 1 May 2013	3,714	5,571
Total non-current borrowings	611,241	503,164
Current borrowings		
Syndicated loan (Swedbank AB, SEB Bankas AB, Nordea Bank Finland Plc, Lithuania Branch and DnB NORD AB) in EUR, to be repaid by 9 November 2020	14,253	14,253
Loan from DnB NORD AB, in EUR, to be repaid by 1 May 2013	3,714	3,714
Loan from the European Bank for Reconstruction and Development, accrued interest	1,198	874
Overdraft from Swedbank AB	-	12,987
Total current borrowing	19,165	31,828

Under the loan agreements the Company is committed to comply with certain financial and non-financial covenants. As at 31 December 2010, the Company did not comply with financial covenants of the loan agreements in terms of the debt to EBITDA ratio and cash flows from operating activities. The Company's management believes that as it is not probable that the creditors will take any actions in respect of these loans, and consequently the classification of borrowings of LTL 526,207 thousand as non-current borrowings according to their contractual maturity is appropriate as at the reporting date (as of 31 December 2010 – LTL 406,146 thousand). This judgement is based on the fact as disclosed in Note 12 that on 1 August 2011 the Company merged with its parent company Lietuvos Energija AB, which AB had no bank borrowings as at 30 June 2011 and therefore the financial position of the new company will be stronger after the merger.

As at 30 June 2011, the Company had not used the overdraft granted by Swedbank AB. The overall limit of the overdraft is LTL 13,000 thousand. The overdraft agreement expires on 1 March 2012.

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8 Emission rights

As at 30 June 2011 and 31 December 2010, emission rights were accounted for as follows:

	Provisions for emission rights utilised
At 31 December 2009	26,909
Provisions for pollution emitted	34,760
Emission rights utilised	(26,909)
At 30 June 2010	34,760
At 31 December 2010	54,212
Provisions for pollution emitted	11,700
Emission rights utilised	(54,212)
As at 30 June 2011	11,700

9 Sales revenue

The Company's sales revenue for the half-year ended 30 June 2011 and 30 June 2010 consisted of:

	January - June 2011	January - June 2010
PSO electricity sales	116,797	172,626
Revenue from electricity trading in the Lithuanian market	57,514	178,866
Revenue from a capacity reserve service	17,383	14,691
Revenue from sale of thermal energy	9,558	7,615
Revenue from balancing and regulating electricity	244	4,787
Total	201,496	378,585

In 2011, the Company had one reportable business segment.

All the Company's assets are located in Lithuania. All sale transactions are conducted in Lithuania.

During the half-year ended 30 June 2011, the Company's revenue received from one major client amounted to LTL 191,468 thousand (during the half-year ended 30 June 2010: LTL 368,117 thousand).

In 2010 and until 31 January 2011, according to the effective PSO scheme the Company received PSO service fees based on the annual approved volume of sponsored production level irrespective of the volume of electricity produced. With effect from 1 February 2011, PSO service fees are received only for the volume of electricity produced.

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10 Related-party transactions

The Company's transactions with related parties conducted during January – June 2011 and the balances arising from these transactions as at 30 June 2011 are presented below:

Related parties	Payables and accrued expenses	Receivables and unbilled revenue	Purchases	Disposals
Entities controlled by the Ministry of Energy of Lithuania Parent company (Lietuvos Energija AB)	145	59,014	1,217	185,515
	-	6,511	-	5,953
Total	145	65,525	1,217	191,468

The Company's transactions with related parties conducted during January – June 2010 and the balances arising from these transactions as at 31 December 2010 are presented below:

Related parties	Amounts payable and advance amounts received	Receivables and unbilled revenue	Purchases	Disposals
Entities controlled by the Ministry of Energy of Lithuania Parent company (Lietuvos Energija AB)	4,838	55,110	2,957	368,018
	-	34	28	99
Total	4,838	55,144	2,985	368,117

Payments to key management personnel

Payments to key management personnel	January - June 2011	January - June 2010
Employment-related payments	182	352
Number of key management personnel (average annual)	2	3

