



2011 | ANNUAL REPORT





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Dear Shareholders, Customers, Partners and Employees,

I would call the year 2011, first of all, a year of significant changes. In my opinion, the three most important results of the year that have crowned the joint efforts and work of the entire team of the company's workers, are the formation of the national electricity producer, centralisation and optimisation of business processes, and the laying of a foundation for a new organisational culture.

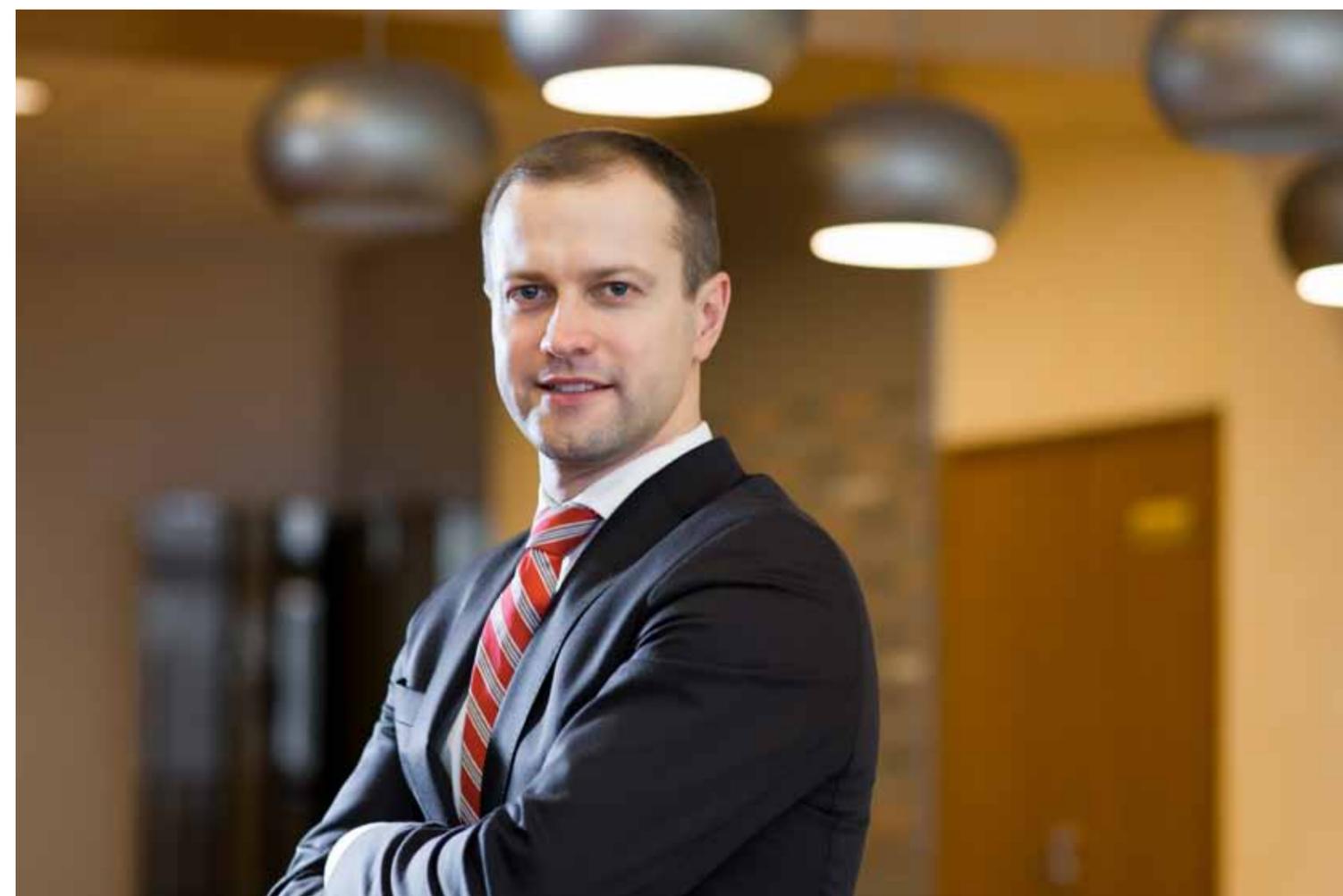
The national electricity producer – Lietuvos energija, AB was established by combining all the state-controlled electricity generation capacities. This action has become a significant part of the liberalisation of the national and regional markets for electricity. We can state firmly that the monopolistic activities of the company are in the past. In 2011, Lietuvos energija earned more than half of its income in a free market – which proves that the company is capable of competing successfully. The position of Lietuvos energija as a competitive market player is reinforced by the fact that its operations in a free market have resulted in a profit of nearly LTL 100 million, which compensated for the loss on the regulated operations.

The initiative on optimisation of operations and cutting of costs has proved to be successful – the company reduced its operating costs by 12% during 2011. Processes have become more efficient following centralisation of the administrative functions; a more transparent public procurement process enabled the company to avoid mistakes of the past. The separation of the repairs function in mid-2011 enables a more effective and flexible approach to planning repair works. Last year, we focused on the review and improvement of internal processes, and we involved all our employees in that work.

In the formation of the new company, the employees were the focus of attention. By merging two companies we chose to create a new culture, which has provided a strong basis for the formation of the new management team, implementation of an effective structure, and improvement of internal communication. The new collective agreement signed last year secures our employees' interests. We are proud of the professionalism of our specialists – thanks to them, power plants of Lietuvos energija worked without emergency shutdowns throughout the year.

In general, 2011 was successful for Lietuvos energija, particularly when taking into account important external factors such as the marked increase in natural gas prices and the record drop in prices for pollution permits at the end of the year. Efficient work of the company and profitability in the non-regulated market has offset the adverse influence of these factors, and the company ended the year with profit.

The company faces significant challenges in 2012: completion of the construction of the combined-cycle unit, development of the project on the generation of heat from biofuel in Elektrėnai, putting unused facilities in prolonged storage, further development of organisational culture, and the streamlining of business processes.



We will continue to pursue our strategy to be a national electricity producer that ensures both the reliable power generation necessary to secure supply and the capacity reserves. We will take an active part in the Baltic, Nordic and European markets. Being one of the largest participants in the national electricity market, we will put forth efforts to further develop it. In our everyday work, we will adhere to our corporate values – respect, responsibility, professionalism, cooperation, and initiative.

The joint efforts of our united team within Lietuvos energija will, I believe, demonstrate how we embody the shared organisational values that will lead us to achieve our corporate objectives.

Yours sincerely,

Dalius Misiūnas
CEO
Lietuvos energija, AB

**„2011 – the year
of significant
changes“**

Dalius Misiūnas

About the Company

Lietuvos energija, AB is the largest electricity generation company in Lithuania, which combines all electricity generation capacities controlled by the State. Company's generation portfolio includes Lithuanian Power Plant, Kruonis Pumped Storage Hydroelectric Power Plant and Kaunas Hydroelectric Power Plant. The Kaunas Hydroelectric Power Plant generates nearly half of all the "green" electricity produced in Lithuania. Located in Elektrėnai, the Lithuanian Power Plant also generates heat for residents and enterprises of the Elektrėnai region. Lietuvos energija, AB is also involved in electricity trading as well as import and export activities.

In order to carry out its designated functions in a due and efficient manner, the Company is committed to technical and scientific advancement, the continuing professional development of its staff, as well as implementation of innovations in technology and the sciences.

In 2010, in accordance with the requirements of the EU Third Energy Package aimed to increase efficiency of the energy system, ensure transparency in the sector, and protect consumer interests, the power sector was divided

into four operating units: power generation, power transmission, power distribution, and servicing of companies in the sector. Lietuvos energija, AB began operations as a new, reorganised company on August 1, 2011, once AB „Lietuvos energija“ and Lietuvos elektrinė AB were merged. The company forms the basis of the power generation unit, the main tasks of which are to ensure national energy security relying on pooled generation capacities, and to effectively compete with other power-generating companies in the integrated market of the Baltic countries.

AB Lietuvos elektrinė

Share exchange ratio 1:1.37
 Authorised capital 145 800 689 LTL

AB Lietuvos energija

Share exchange ratio 1:1.28
 Authorised capital 489 282 926 LTL

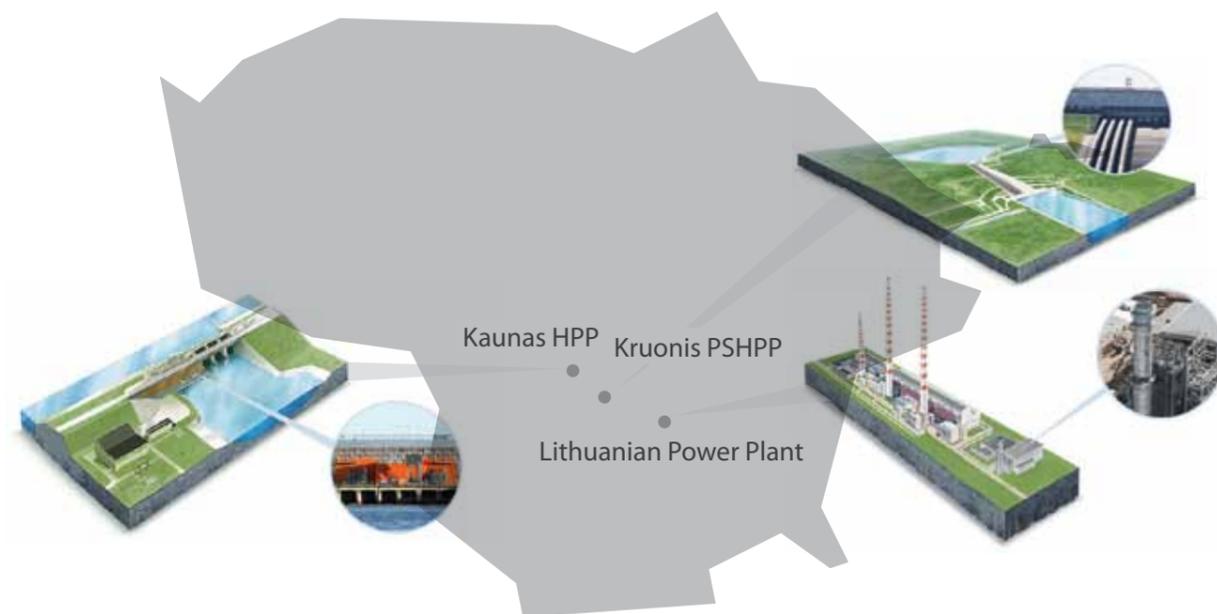


Lietuvos energija, AB

Authorised capital 635 083 615 LTL
 Headquartered in Elektrėnai

BENEFITS:

The new company took over the **best practices** of AB Lietuvos elektrinė and AB Lietuvos energija in terms of organisation and technology; integrated planning of the electricity-generating unit's strategy and investments, securing balanced cash flows;
 Merger of the companies reduces **operating costs**;
 Effective planning of electricity generation **using all the available** equipment.



About the Company

Information on trading in securities on regulated markets

Shares of the company are traded on the regulated market: as of September 1, 2011, the company's shares are listed in the official trading list of NASDAQ OMX Vilnius Securities Exchange.

Shareholders and shares

Authorised capital: –

LTL 635 083 615

Par value per share: –

LTL 1,00

Value of assets managed by the company: –

LTL 3,3 billion

Visagino Atominė Elektrinė UAB controls 96.13% of the company's shares and is thereby the majority shareholder of Lietuvos energija, AB. The remaining 3.87% of shares are held by minority shareholders.

Mission

The mission of Lietuvos energija is to provide reliable, effective and diversified energy solutions that meet the demands of current and future customers.

Objectives

The strategic objectives of Lietuvos energija, AB are to increase the value of the company, provide high-quality services to customers, diversify power generation by using local and renewable energy resources, increase efficiency of operations, and create a new organisational culture.

VISION

to become the national producer of electric energy and efficiently operate in the integrated European electricity market.

The company strives to attain these objectives relying on the fundamental values of *respect, accountability, professionalism, cooperation and initiative*.

Lietuvos energija, AB is systematically implementing the National Energy Strategy (NES) approved by the Government of the Republic of Lithuania of October 6 in 2010. The main provisions of the NES are:

- To achieve energy independence;
- To increase competition and efficiency in the energy sector;
- To implement sustainable development.

Membership in International and National Organisations

Lietuvos energija, AB takes an active part in the activities of international and national organisations. This strengthens the company's position in maintaining close ties with its partners in the electricity market.

The Lithuanian Electricity Association

The Lithuanian Electricity Association was established in June, 2011 by the Lithuanian power sector companies

Lietuvos energija, AB, AB LESTO, LITGRID AB, and UAB Technologijų ir Inovacijų Centras. One of the main tasks of the association is to ensure due representation of the Lithuanian energy sector in the European electricity industry association EURELECTRIC.

EURELECTRIC (The European Electricity Industry Association)

Lietuvos energija, AB is a member of EURELECTRIC. The association unites power generation, supply, trading and distribution organisations in the EU and other European countries. EURELECTRIC represents the common interests of the power sector in Europe and collaborates with organisations and institutions of other continents. The mission of EURELECTRIC is to contribute to the development and competitiveness of the electricity industry, and to expand the role of electric power in a developed society. Members of EURELECTRIC represent their countries on behalf of the national energy sector associations. At present, EURELECTRIC has 33 active members from 27 EU member states. The Association started its activities in December, 1999 upon merger of the UNIPEDE and EURELECTRIC associations.

THE COMPANY WAS WORKING SUCCESSFULLY AND RELIABLY IN THE YEAR OF SIGNIFICANT CHANGES

Income

LTL 1,4 billion

EBITDA

LTL 83 million

(excluding a LTL 146 million decrease in the value of pollution permits)

Net profit

LTL 11 million

(excluding a LTL 74 million decrease in the value of pollution permits)

0 shutdowns

All power plants operated without emergency shutdowns.

Activities

Lietuvos energija, AB generates the required amount of electricity at three electricity generation plants that are under its control: the Lithuanian Power Plant, the Kruonis Pumped Storage Hydroelectric Power Plant, and the Kaunas Hydroelectric Power Plant.

The company sells electricity and provides power balancing services to both public supplier LESTO and independent suppliers operating in the Lithuanian market. Lietuvos energija, AB purchases electricity from other suppliers and power-generating companies according to separate

contracts, and also exports and imports electricity on the Lithuanian and Estonian power exchanges.

The Lithuanian Power Plant produces heat energy for residents and enterprises in the Elektrėnai region.



Lithuanian Power Plant (LPP)

The main power plant in the Lithuanian energy system, with the largest production capacities in the country (1800 MW). The construction of a new combined-cycle gas turbine unit started in 2009 which will increase the plant's production capacities.

Combined Cycle Gas Turbine (CCGT) Unit

Maximum efficiency of the CCGT unit will be approximately 60%. Capacity: 455 MW. The unit will be able to generate enough electricity to cover 20-25% of Lithuania's total demand. The unit will use 30% less natural gas than the current units; the level of CO2 emissions will decrease. Will start operations in autumn 2012.



Kaunas Hydroelectric Power Plant (Kaunas HPP)

This is the largest electricity generation plant in Lithuania fueled by renewable resources. The Kaunas HPP helps to balance the generation and consumption of power, and levels out irregularities in the power system. It is one of the power plants in the Lithuanian energy system that can start operating autonomously in the event of a general system failure. The plant has a capacity of 100,8 MW. The plant produces 0.375 TWh of electricity per year on average.



Kruonis Pumped Storage Hydroelectric Power Plant (Kruonis PSHPP)

The plant is the reserve link in the power system, and ensures its vital emergency reserve. Like the Kaunas HPP, the Kruonis PSHPP balances electricity generation and consumption, levels out irregularities in the power system, and regulates voltage and frequency. The plant has a capacity of 900 MW. The Kruonis PSHPP ensures 84% of the total energy reserves necessary for Lithuania in the event of an emergency.

Structure of the Group

Companies Controlled by Lietuvos energija, AB



UAB Technologijų ir inovacijų centras

54,04 %



NT VALDOS, UAB

41,1 %



Energijos tiekimas UAB

100%



UAB „Kauno energetikos remontas“

100 %



Nordic Energy Link AS

25 %



UAB „GEOTERMA“

23,44 %

The Board



KĘSTUTIS ŽILĖNAS

Chairman of the Board

In this position since:
22 December 2011

Education:
Kaunas University of Technology, Master's degree in Computer Systems and Network Engineering.
Mykolas Romeris University, Master's degree in Law.
Baltic Institute of Corporate Governance, training programme.

Career:
In 2001 started working at the National Control Commission for Prices and Energy.
2002 – 2009 member of the Licensing/ Competition Committee of the Energy Regulators Regional Association (ERRA).
2007 – 2009 member of the working group for the protection of consumer rights and the working group for reliability of electricity transmission and service quality at the Council of European Energy Regulators (CEER). Since 2009 working at the Ministry of Energy of the Republic of Lithuania.

Main employment:
Vice-Minister of Energy of the Republic of Lithuania.



ALOYZAS VITKAUSKAS

Member of the Board

In this position since:
19 January 2011

Education:
Vilnius Gediminas Technical University, Master's degree in civil engineering.

Career:
Lecturer at the Vilnius Gediminas Technical University for seventeen years. General Manager of Litdania UAB for two years. General Manager of Public Entity Housing Crediting Fund and Public Entity Housing and Urban Development Fund until 2003. Later was the Head of the Central Project Management Agency. Secretary of the Ministry of Finance of the Republic of Lithuania from 2006 to 2009.

Main employment:
Vice-Minister of Finance of the Republic of Lithuania.

The Board of Lietuvos energija, AB is the highest permanent managing body of the Company.

It is elected during the General Meeting of Shareholders for a term of four years.



DALIUS MISIŪNAS

Member of the Board

In this position since:
17 March 2011

Education:
Kaunas University of Technology, Bachelor's degree in Electrical Engineering.
Lund University of Technology (Sweden), Doctor of Technological Sciences.

Career:
In 2000 and subsequent years carried out research and experimental works at Lund University of Technology (Sweden) and Adelaide University (Australia). Upon returning to Lithuania, in 2006-2008 worked at the international engineering consulting and designing company SWECO and later at the consulting firm Ernst & Young Baltic. In 2010 was appointed Head of the Department Management Service of AB VST and later became the board member and the Head of the Strategy and Development Service of AB LESTO. Since 2011, CEO of Lietuvos energija, AB.

Main employment:
CEO of Lietuvos energija, AB.



RIMANTAS VAITKUS

Member of the Board

In this position since:
12 December 2011

Education:
Vilnius University, Physics faculty. Doctor of natural sciences

Career:
Spent several years working as a researcher at Semiconductor Energy Laboratory (Japan). Vice-Minister of the Economy of the Republic of Lithuania from 1999 to 2001, in charge of nuclear energy. General Manager of IBM Lietuva for seven years. Spent the past three years working in the power sector; Since 2010 working at Visagino Atominė Elektrinė UAB. Chairman of the Board of the Lithuanian-Japanese Association, member of the Vilnius Old Town Rotary Club, the author of over 40 research papers, the author and co-author of eight US and ten Japanese patents.

Main employment:
General Manager of Visagino Atominė Elektrinė UAB.



SONATA MATULEVIČIENĖ

Member of the Board

In this position since:
12 December 2011

Education:
Medical studies at Vilnius University, (Doctor-Paediatrician).
Studies at the Chartered Institute of Marketing (London).
Studies at the Baltic Institute of Corporate Governance.
The Swedish Institute Management Programme.

Career:
Resident doctor, and later - consulting doctor at Vilandra UAB. Worked at Abbott Laboratories Baltics from 1999 to 2008. Commercial Director for Central and Eastern Europe and North and West Africa at Abbott Laboratories Central and Eastern Europe & North and West Africa in 2009-2010. Member of the Board of the Lithuanian Association of Ethical Pharmaceutical Companies since 2009. Experienced in the fields of business development, product marketing and sales; received advanced training in Germany, the United States, Austria and Belgium.

Main employment:
Baltic States Sales Manager for Baxter.

Changes: the Company's Perspective

2001 was indeed a year of change - filled with challenges and significant events.

01

REORGANISING LIETUVOS ENERGIJA

We have successfully completed the merger of AB Lietuvos energija and AB Lietuvos elektrinė. This merger represented the last step in the formation of the production unit. From its very first days, the new Lietuvos energija, AB has been trying to foster a modern organisational culture, improve the quality of service, boost operational efficiency, and increase the value of the company.

02

RENEWING

The reorganisation was accompanied by a new corporate image which reflects a modern, contemporary company. This testifies to the main direction of the company's operations, i.e. the search for new opportunities and the introduction of innovative technologies.

03

STREAMLINING AND CENTRALISING FUNCTIONS

The function of repair works was separated from operation of the power plants, which enables us to more flexibly plan the scope and timing of repair works based on actual needs. Corporate functions such as procurement, finance, accounting, human resource management, and legal and administrative support, were centralised for all power plants. This enables us to both cut costs and do our jobs well together.

04

BECOMING MORE OPEN AND TRANSPARENT

On September 1, 2011 the company was included in the official trading list of NASDAQ OMX Vilnius Securities Exchange. This is a significant step in establishing new relations, and maintaining the strong ones we already have with our investors and business partners.

05

OUTLINING FUTURE DIRECTIONS

A long-term corporate strategy until the year 2020 has been approved based on different operating scenarios. This strategy outlines the company's key objectives, the fulfilment of which will help establish national energy independence.

06

EXPANDING PRODUCTION CAPACITIES

Significant progress was made in the new combined cycle unit of the Lithuanian Power Plant. The bulk of construction works were carried out during this past year. At the end of the year, the unit was connected to the main gas pipeline.

07

MODERNISING

In 2011, the reconstruction works of Kaunas Hydroelectric Power Plant were accomplished. This enabled the plant to triple its energy reliability and to increase its efficiency by 4%. The operation period of the plant was further prolonged for 25 years, and the periodicity of major repairs of its equipment was prolonged from 5 years to 20 years.

08

BECOMING SAFER AND MORE RELIABLE

We are proud of the fact that the Lithuanian Power Plant operated the entire year without emergency interruptions. Previously, there used to be six such interruptions per year on average.

09

BECOMING ASSOCIATED

We founded the Lithuanian Electricity Association. The association currently unites Lithuania's largest energy companies, which, together with the association, will form a common position for the energy sector and represent the interests of its members on both the national and international level. The association also represents the Lithuanian energy sector at EURELECTRIC, the European electricity energy association.

10

CARING FOR EMPLOYEES

Last year, Lietuvos energija, AB signed a collective agreement which covers both standard social guarantees and an incentive package. This agreement is an important step in the formation of the organisational culture of the new Lietuvos energija, AB. Before that all energy plants (Lietuvos elektrinė, Kaunas Hydroelectric Power Plant, Kruonis Pumped Storage Power Plant) and the old "Lietuvos energija" had different collective agreements.

KEY PERFORMANCE INDICATORS 2011

IN THIS SECTION, THE 2011 RESULTS OF LIETUVOS ENERGIJA, AB ARE COMPARED WITH THE 2010 SUMMARY RESULTS OF AB LIETUVOS ENERGIJA AND AB LIETUVOS ELEKTRINĖ PRIOR TO THE MERGER.



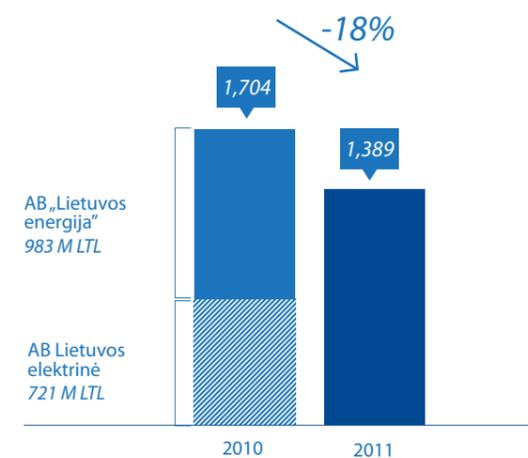
With the changing conditions of the electricity market and decreasing revenue, **the company balanced its costs and increased EBITDA by 16%**. EBITDA margin grew by 2 percentage points, i.e. from 4% in 2010 to 6% in 2011.

Company's performance was significantly affected by the costs of the loss of value of emission allowances due to the decrease in their market price. Excluding the loss of value of emission allowances, **in 2011 EBITDA totalled LTL 146 million** (EBITDA margin – 10.5%).

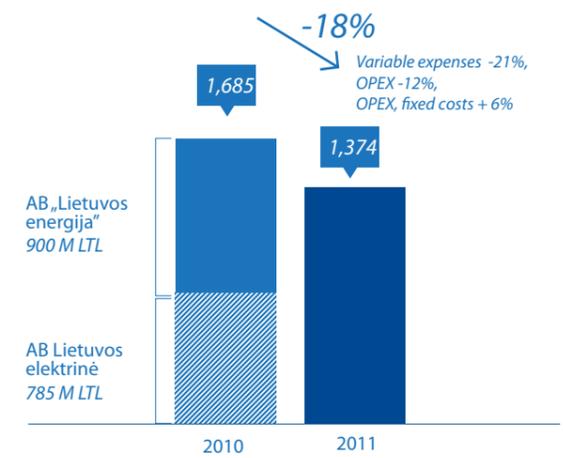
The net profit decreased due to grown depreciation costs and dropped deferred tax income and accounted for LTL 11 million. The net profit margin fell by 1 percentage point.

Key Performance Indicators 2011

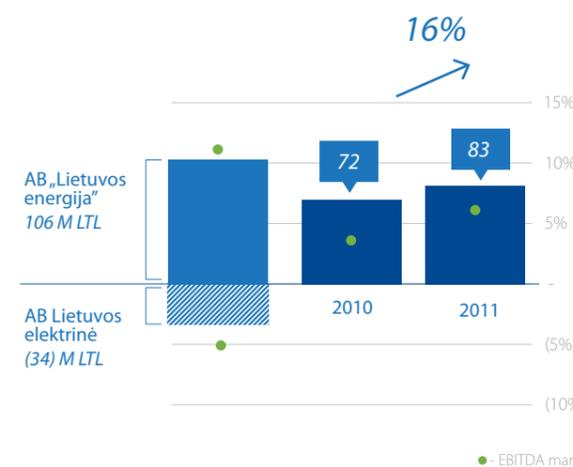
Revenue, M LTL



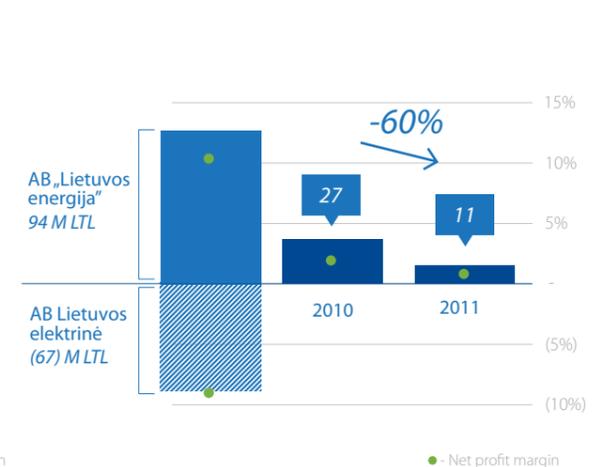
Expenses, M LTL



EBITDA, M LTL



Net Profit, M LTL





**KEY PRODUCTION
AND SALES
INDICATORS 2011**

Key Production and Sales Indicators 2011

The company's results were most influenced by the continued liberalisation of the electricity market, which has caused a decrease in electricity sales, a marked increase in natural gas prices, and a record drop in the market price of emission permits at the end of 2011. These factors had a negative impact on the company's annual performance results.

In this section, the 2011 results of Lietuvos energija, AB are compared with the 2010 summary results of AB Lietuvos energija and AB Lietuvos elektrinė prior to the merger.

Income

As a result of changes in the electricity market and reduced production volumes, income of the company decreased by 18% in 2011 compared with 2010, from LTL 1.704 million to LTL 1.389 million. Compared with 2010, sales to independent suppliers increased 12% in 2011 due to share growth of the open retail electricity market. At the same time, electricity sales to LESTO AB decreased 38% due to the decrement of regulated market share brought about by market liberalisation.

Generation of electricity

In total, the Lithuanian Power Plant (LPP), the Kaunas Hydroelectric Power Plant (Kaunas HPP), and the Kruonis Pumped Storage Hydroelectric Power Plant (Kruonis PSHP) generated 2.018 TWh of power in 2011, which is 33% less than in 2010.

The greatest reduction in production was at the LPP, which generated 1.1 TWh in 2011, as opposed to 1.9 TWh in 2010. LPP production volumes are dependant on the requirements for the reliability of the Lithuanian energy system and the volume of other supported generation. Production at the Kruonis HPSP decreased as a result of the changed situation in the wholesale electricity market, i.e. the increase in the price of night-time electricity, which is used to charge the Kruonis HPSP. Operating results of the Kaunas HPP were affected by weather conditions - the average water flow rate in the Nemunas River was lower in 2011 than in 2010.

In fulfilling its obligation to meet the electricity needs of AB LESTO regulated customers, the company purchased 75% more wind power in 2011 than in 2010.

Import and Export

In 2011, the company imported 1.084 TWh of electricity, which is slightly less than in 2010 (1.172 TWh). Compared with 2010, export volumes increased; the company exported 0.292 TWh in 2011, as opposed to 0.186 TWh in 2010.

Costs

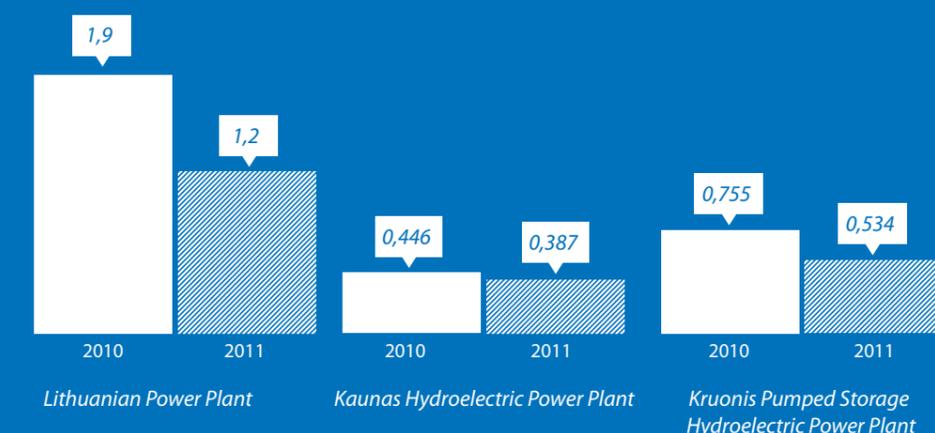
With the decrease in electricity generation and sales, the company's variable costs have also decreased. In 2011, variable costs were 19% lower than in 2010, even though the price of natural gas increased by 30% in 2011.

The company's operating costs (OPEX) were cut by 21%. By combining the administrative functions of the power plants, outsourcing repair services, and optimising operations, the company was able to reduce personnel costs by 29% (i.e. LTL 15.3 million).

Company posts

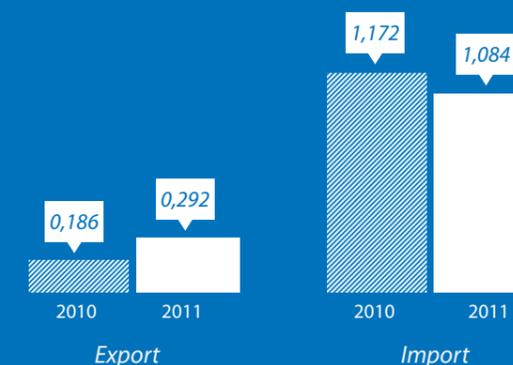
95 million
net profit from deregulated activity

Generation of Electricity, TWh



Import and Export, TWh

In 2011, the company imported 1.08 TWh of electricity, exported - 0.29 TWh



Sales to AB LESTO and to Independent Suppliers, TWh

In 2011, the Company sold 2.50 TWh of electricity to AB LESTO and 1.72 TWh to independent suppliers.





Regulated and non-regulated operations

Regulated operation income (i.e. supported electricity generation at the LPP, heat generation, and LPP and Kruonis HPSP reserve services) accounted for 40% of the company's total income in 2011, but upon elimination of the effect of gas price increase, the company incurred a LTL 84 million net loss and negative EBITDA (- LTL 32 million) on regulated operations. This loss was most impacted by the share of fixed costs, which, by decision of the National Control Commission for Prices and Energy, was not covered by Services of General Interest (SGI) funds and capacity reserve income (LTL 19 million), as well as the cost of reappraisal of emission permits acquired by the LPP in 2009 (LTL 63 million) due to a drop in their market price.

In 2011, EBITDA from non-regulated operations, which was comprised of power generation at Kruonis PSHP and Kaunas HPP as well as wholesale trade in electricity on the open market, amounted to LTL 115 million, with a net profit of LTL 95 million.

Taking the circumstances that came to light in 2011 into account, corrections were made to the 2010 results of Lietuvos elektrinė AB. In 2010, Lietuvos elektrinė AB failed to account for a future emission permit contract, which, in light of changes in the market price of emission permits and altered production plans, has become unprofitable. The company therefore corrected 2010 costs, reducing net profit by LTL 24 million. Furthermore, AB Lietuvos elektrinė adjusted SGI income (LTL 50 million) which was not related to supported electricity generation and by which, upon the decision of the National Control Commission for Prices and Energy, SGI funds for 2012-2015 were reduced.

Corrections of the value of fixed assets were also made, which effected net profit by LTL 2 million. In total, these corrections resulted in a decrease in AB Lietuvos elektrinė 2010 net profit of LTL 72 million, thereby creating a net loss of LTL 67 million.

Profitability

With the decrease in income, the company balanced its costs and enhanced an EBITDA margin up to 6 % from 4% in 2010. (Due to increased depreciation costs, net profitability dropped by 1 percentage point. In 2011, EBITDA were LTL 83 million, with a net profit of LTL 11 million. Excluding the decrease in the value of emission permits, EBITDA for 2011 were LTL 146 million (10.5% EBITDA margin), with a net profit of LTL 74 million (5.3% net profitability).

Investments

Lietuvos energija, AB made nearly LTL 269 million of investments in 2011. The bulk of this amount - LTL 263 million - was made up of investments in the new Combined Cycle Gas Turbine

(CCGT) Unit, compared with LTL 550 million in 2010. The company plans to invest an additional LTL 182 million in the CCGT in 2012.

Reconstruction of the Kaunas Hydroelectric Power Plant was completed in 2011, after which reliability of the power plant increased three-fold, and efficiency increased by 4%. Its term of exploitation was extended by 25 years, and the capital repair interval for its units was extended from 5 to 20 years.

On December 23, 2011, Lietuvos energija, AB concluded a share subscription agreement and acquired newly issued shares of Technologijų ir Inovacijų Centras UAB. These were paid for in a non-monetary settlement by transferring shares in the company's subsidiary UAB "Data Logistics Center". Income from the transfer of investments in UAB "Data Logistics Center" amounts to LTL 22 million.

ANALYSIS OF THE EXTERNAL ENVIRONMENT

Reorganisation of the energy sector, regulation and legal framework

Reorganisation of the Energy Sector

The year 2010 brought many changes in the energy sector. Reorganisation of the sector was launched in order to comply with the requirements of the EU Third Energy Package.

Provisions of the EU Third Energy Package are aimed at the liberalisation of the electricity and gas markets. Their purpose is to ensure an efficacious separation of operations in the power sector and related commercial interests, the effective execution of which would make it possible to eliminate the opportunities of vertically integrated companies to create discriminatory conditions for third-party access to power networks, distort competition, and restrict third-party investments.

In implementing the aforementioned EU requirements, power transmission operations and infrastructure were detached from AB Lietuvos energija at the end of 2010. In 2011, a production unit comprised of the LPP, the Kruonis PSHP, and the Kaunas HPP was formed on the basis of AB Lietuvos energija.

Regulation

Acting in accordance with the Law on Electricity of the Republic of Lithuania, the National Control Commission for Prices and Energy regulates the prices for electricity and reserve capacity of producers and independent suppliers whose market share is significant. In 2011, the National Control Commission for Prices and Energy established price ceilings for the capacity reserves of the power plants controlled by Lietuvos energija, AB.

The Lithuanian Power Plant, which generates electricity according to set production quotas, receives SGI funding, as the plant is indispensable for ensuring security of power supply and energy system reserves. The purchase price for the electricity generated by the LPP is set by the National Control Commission for Prices and Energy.

Environmental protection

The company's environmental activities are carried out in accordance with the requirements of Integrated Pollution Prevention and Control (IPPC) Authorisations issued by the Regional Environmental Protection Departments of the Ministry of Environment of the Republic of Lithuania

Market Liberalisation

Liberalisation of the Lithuanian electricity market is defined by the Law on Electricity of the Republic of Lithuania. As the number of customers regulated by AB LESTO will decrease during the liberalisation, and these customers will choose independent suppliers, Lietuvos energija, AB should increase sales to independent suppliers in order to maintain the present level of commerce. This will not be easy, due to strong competition on the part of foreign suppliers (Inter RAO Lietuva UAB, Latvenergo Prekyba UAB, Enefit UAB).

Wholesale market

The wholesale electricity market is the communication environment of suppliers and producers. The principles of this market are realised through mutual competition among producers (which aim to sell as much electricity as possible) and competition among suppliers (which seek to acquire electricity at the most favourable terms).

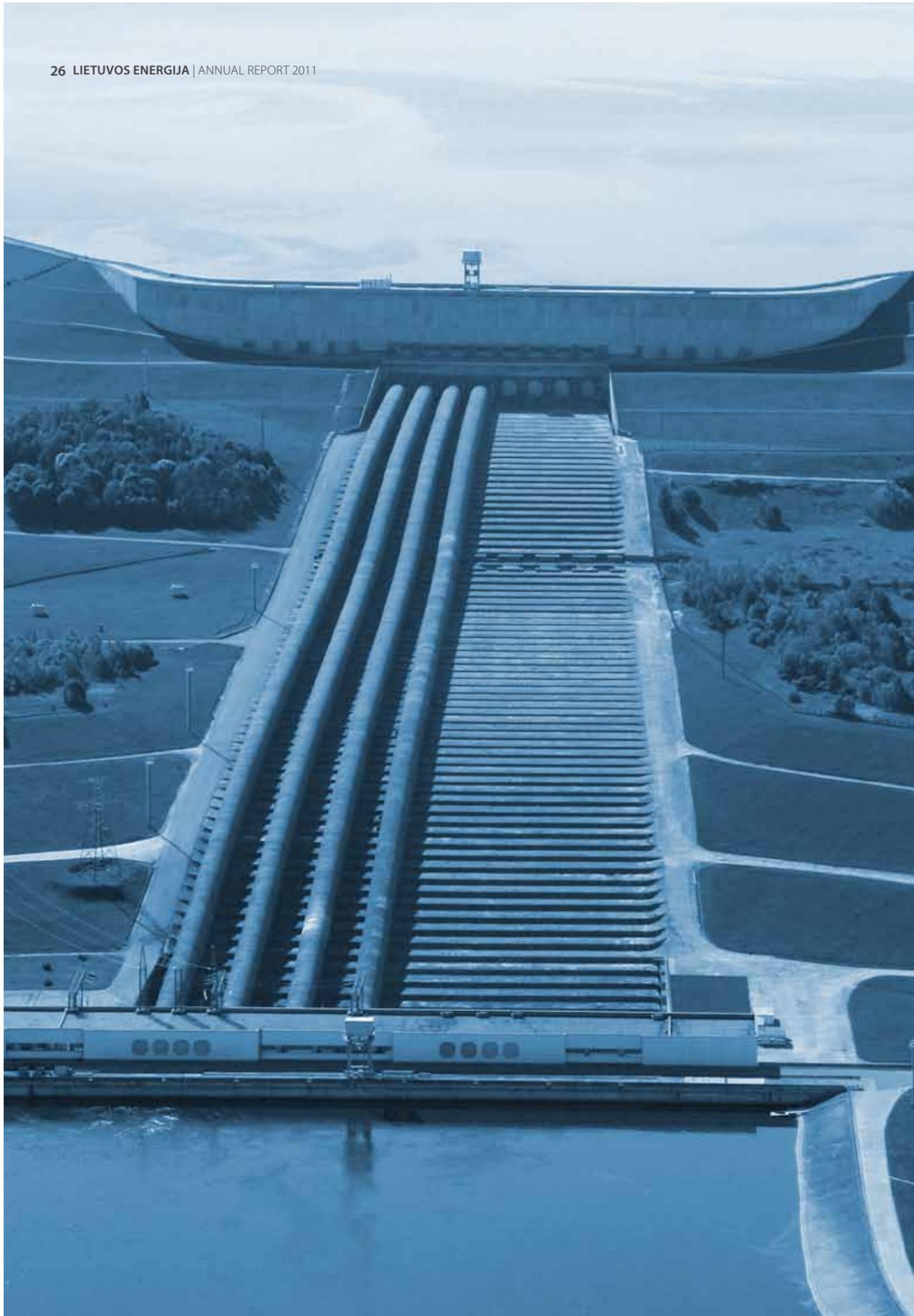
Companies that have a supplier licence and are acknowledged as the players of the wholesale electricity market currently trade in two types of electricity on the wholesale market to meet the needs of their customers:

- All data about electricity trade carried out on the basis of direct bilateral contracts is administered by the Market Operator and the National Control Commission for Prices and Energy.
- Electricity on a power exchange – the volume of electricity purchased from or sold to the players of a power exchange on day-ahead hourly basis.

The volume of electricity traded on the Lithuanian electricity exchange in 2011 was 7 963 921.5 MWh, a drop of 1.9 % from the year earlier figure of 8 118 037.8 MWh. *

* „Report on the monitoring of the electricity market 2011“. The National Control Commission for Prices and Energy, February 2012

„Electricity market in Lithuania“. BALTPOL UAB, 2010.



Retail market

The retail electricity market is the communication environment of end consumers and their suppliers. The principles of this market are realised through competition among suppliers when the customer has a possibility to choose the preferred supplier based on the electricity price, payment terms and other criteria.

The market expansion plan* provides for a possibility for electricity consumers to select independent electricity suppliers in stages during the period of 2010–2015. Electricity consumers with permissible power capacity over 400 kW had to choose independent electricity suppliers from 1 January 2010. Consumers with permissible power capacity over 100 kW had to choose independent electricity suppliers from 1 January 2011. Consumers with permissible power capacity over 30 kW were able to choose independent electricity suppliers from 1 January 2012.

All consumers with permissible power capacity of 100 kW or more that were subject to regulated electricity pricing until 2011 had to switch to independent suppliers in the course of 2011. Objects with power capacity of 100 kW and more accounted for 8 609, with 5 128 (59.6%) of them having chosen independent suppliers. The other 40.4% did not select an independent supplier and stayed with AB LESTO, but they were no longer subject to regulated electricity pricing from 1 January 2011.

The volume of electricity supplied by independent electricity suppliers to customers amounted to 3 681 473 MWh in 2011. Public supplier AB LESTO supplied regulated electricity consumers with 3 452 630 MWh of electricity in 2011. The amount of electricity supplied to deregulated consumers by AB LESTO, acting as a guarantee supplier, made up 717 397 MWh in 2011. *

* Decision No 740 of the Government of the Republic of Lithuania of July 8th 2009 "Regarding the Approval of the Plan for the Development of the Lithuanian Electricity Market".

** „Report on the monitoring of the electricity market 2011". The National Control Commission for Prices and Energy, February 2012

„Electricity market in Lithuania". BALTPool UAB, 2010.

National Energy Strategy

The long-term strategy of Lietuvos energija, AB is based on the National Energy Strategy, which establishes the following key principles for the Lithuanian energy sector:

- Energy independence (integration into the European energy systems, sufficient and competitive local capacities for the meeting domestic energy needs, diversified import of electricity);
- Competitiveness (energy prices dictated by the market; prices favourable to consumers);
- Sustainable development (environmentally-friendly energy sector, efficient use of resources).

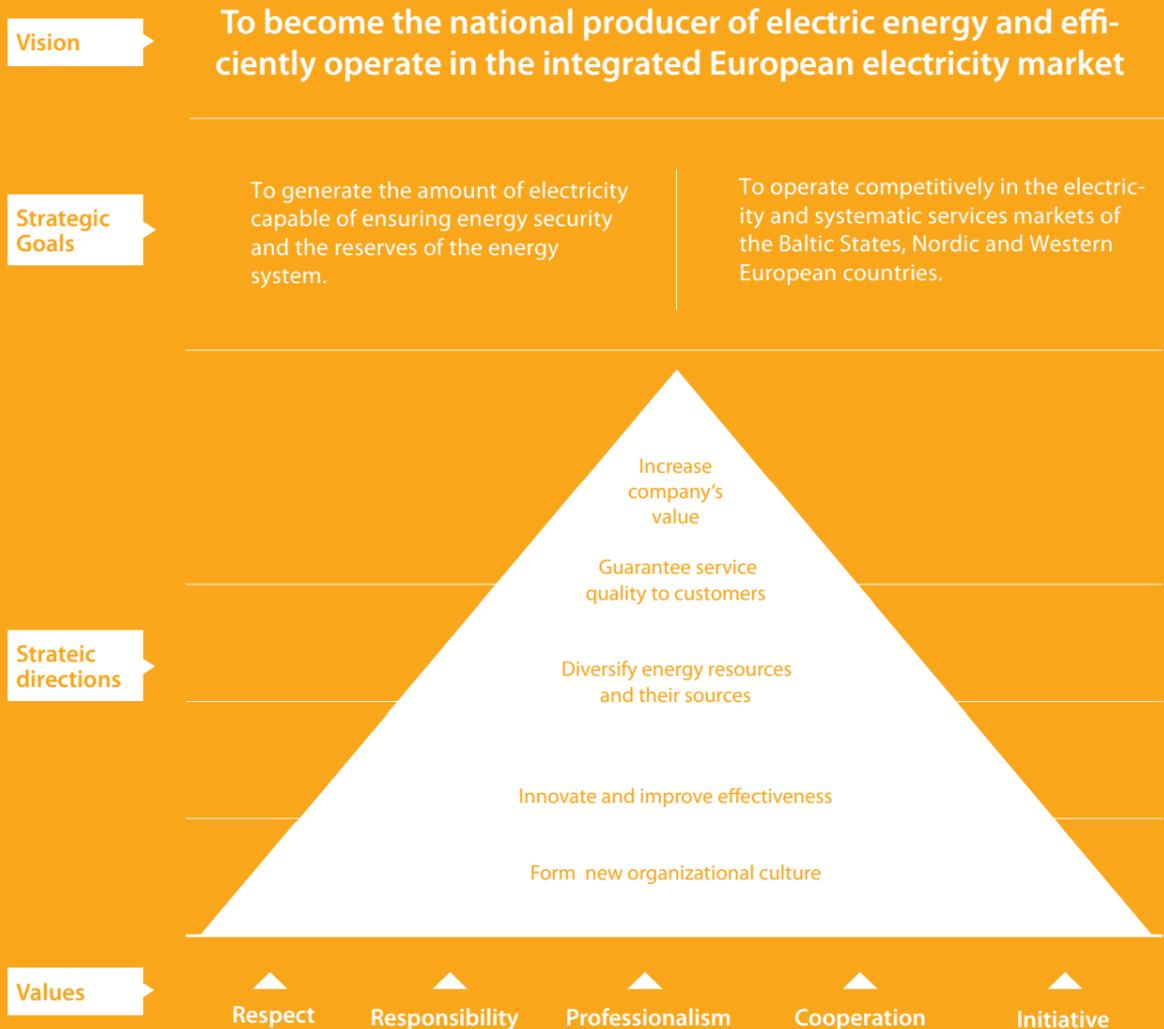
Ensuring Energy Security in Lithuania

In striving for Lithuanian energy independence, one of the principal tasks is to satisfy Lithuanian electricity demand using local and diversified energy resources.

The main factors in ensuring energy security in Lithuania include the diversification of energy resources and sourcing thereof, the ability to satisfy national electricity demands with electricity that is produced in Lithuania, and the ability to meet the demand of the most vulnerable consumers with electricity generated at domestic power plants.



**CORPORATE
STRATEGY AND
STRATEGIC
PROJECTS**



Corporate Strategy and Strategic Projects

Corporate Strategy to the Year 2020

The strategy of Lietuvos energija, AB for 2011-2020

The strategy was prepared based on analysis of the company's strengths and weakness and the long-term trends of both the local and neighbouring electricity markets, and keeping in line with the objectives set forth in the National Energy Strategy (NES).

Over the next ten years, a number of strategically significant projects are planned to be implemented in the energy sector of the Lithuanian and neighbouring markets which may directly impact the company's operations. One of the projects is the construction of a CCGT; production of electricity at the new unit is expected to begin in 2012.

Taking into account the results of internal and external environmental analysis, as well the provisions of the NES, the company has identified its long-term strategic directions and vision. The strategic directions are linked to the following electricity sector initiatives put forth in the NES:

- Sufficient local capacities to satisfy domestic electricity demand;
- Increased use of renewable energy resources in the generation of power;
- Integration into the European power systems:
- completion of a common Baltic electricity market;
- integration into the Nordic electricity market.
- Liberalisation of the electricity market and reorganisation of the energy sector.

Long-term strategic directions of Lietuvos energija, AB:

- Increase company's value;
- Guarantee service quality to customers (TSO, suppliers, consumers);
- Diversify energy resources and their sources;

- Innovate and improve effectiveness;
- Form new organizational culture.

Vision of Lietuvos energija, AB

To become the national producer of electric energy and efficiently operate in the integrated European electricity market.

As a part of strategy, Lietuvos energija, AB will seek to implement the following strategic goals:

- To generate the amount of electricity capable of ensuring energy security and the reserves of the energy system.
- To operate competitively in the electricity and systematic services markets of the Baltic States, Nordic and western European countries.

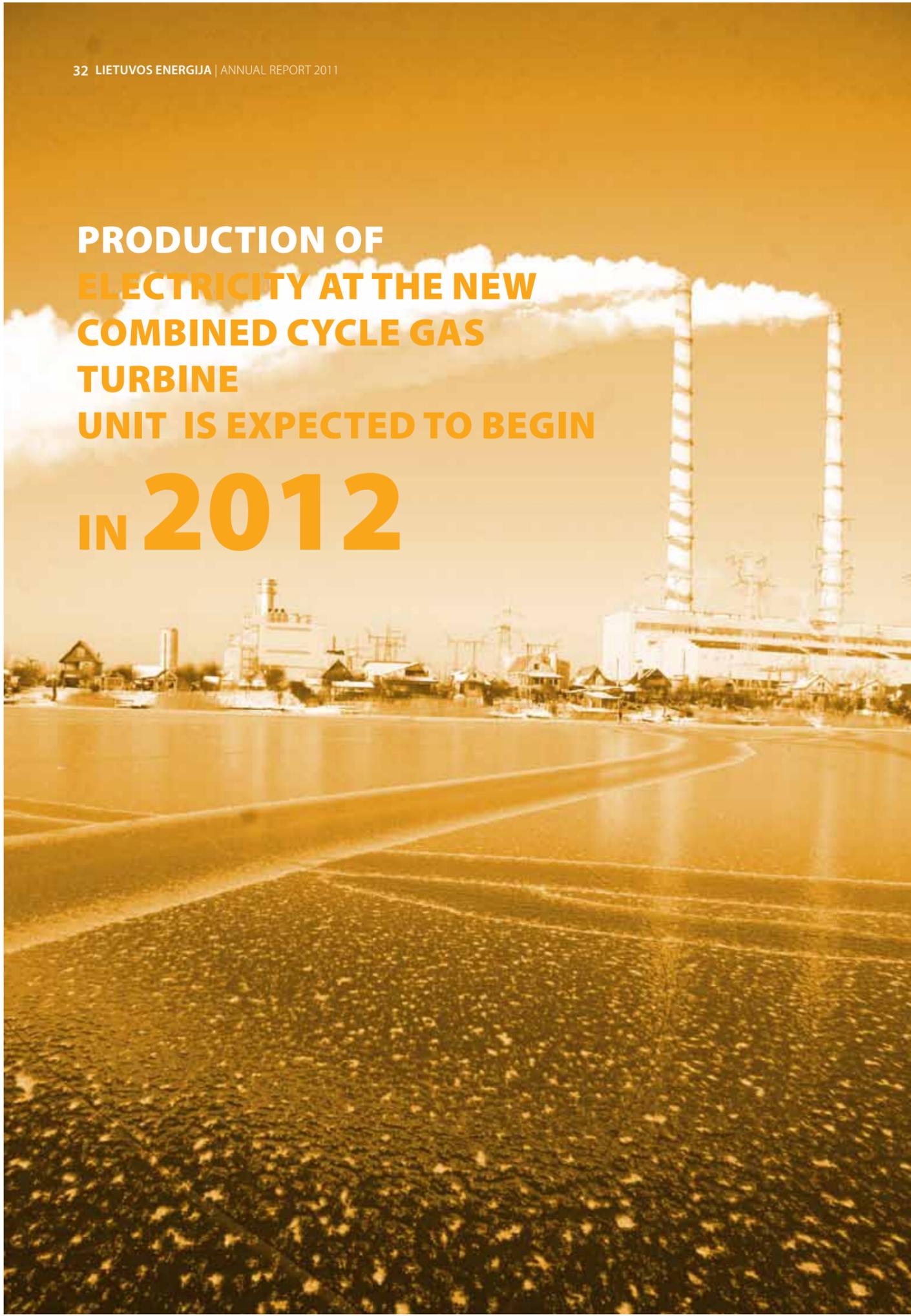
In order to implement the company's vision and strategic directions, it is important to identify core values which define how employees behave at work, and in communication with customers and colleagues.

The fundamental values of Lietuvos energija, AB include respect, responsibility, professionalism, cooperation and initiative. Dissemination of these values will form part of the programme on the creation of a new organisational culture within the company.

In order to implement the company's vision and strategic directions, it is important to identify core values which define how employees behave at work, and in communication with customers and colleagues.

1 Fig. Vision and long-term directions and strategic goals of Lietuvos energija, AB

PRODUCTION OF ELECTRICITY AT THE NEW COMBINED CYCLE GAS TURBINE UNIT IS EXPECTED TO BEGIN IN 2012



Programmes for the implementation of the company's strategic directions

In developing its operations in line with the strategic directions identified in its strategy and coordinated with the National Energy Strategy, the company strives to increase return on assets, duly represent shareholders' interests, strengthen its competitiveness, and ensure sustainable development. These objectives are planned to be achieved through the following programmes:

I. PROGRAMME FOR ASSURING QUALITY OF SERVICES

- Development of the Kruonis Pumped Storage Hydroelectric Power Plant.
- Sustainment of market share in Lithuania.
- Decrease of the portion of regulated income in Lietuvos energija's revenue structure.
- Implementation of trade in the Northern Europe regional electricity market.

II. PROGRAMME FOR DIVERSIFICATION OF ENERGY RESOURCES AND SOURCING THEREOF

- Construction of biomass power plants.
- Management of an effective portfolio of electricity trading and production.
- A balanced portfolio of fuel sources.
- Assurance of a new import sources at competitive prices.

III. PROGRAMME FOR THE IMPLEMENTATION OF INNOVATIONS AND INCREASE OF OPERATIVE EFFICIENCY

- Construction of a CCGT unit at the Lithuanian Power Plant.
- Implementation of technology audit recommendations, reduction of internal expenditures and increase of fuel economy in production.
- Improvement of the production supervision process.

IV. PROGRAMME FOR THE FORMATION OF A NEW ORGANISATIONAL CULTURE

- Creation of a result-based system of remuneration.
- Assurance of a new generation of employees.
- Strengthening and supplementation of technical personnel competencies to ensure effective exploitation of new production capacities.
- Strengthening of sales personnel competencies.
- Application of effective means of communication.



One of the key objectives is to meet the Lithuanian electricity demand through the exploitation of local and diversified energy resources

Lietuvos energija, AB and Power Plants and Trade Operation Prospects Through 2020

Main trends in the company's power plants and trade operation through 2020:

1. Vision for operation of the Lithuanian Power Plant:

In an effort to increase power plant competitiveness, the bulk of electricity will be produced in the Combined Cycle Gas Turbine (CCGT) Unit, which is most efficient unit;

The CCGT unit will ensure energy supply security and the provision of basic consumer demand in case of necessity (e.g. in case the cogeneration plants are inoperative).

The main power plant for the maintenance of the tertiary emergency reserve necessary for ensuring supply security and energy system reserves.

A development project is planned in the field of heat generation: a new project will be implemented in Elektrėnai for the production of heat utilising biomass.

2. Vision for operation of the Kruonis Pumped Storage Hydroelectric Power Plant:

The main power plant for the maintenance of secondary emergency reserve in Lithuania.

The power plant will provide more system services due to the increasing demand for regulation as a result of development of the use of renewable energy resources in Lithuania and due to the new power links with Sweden and Poland.

A new development project is planned: due to the increasing demand for system services, a development project for the Kruonis Pumped Storage Hydroelectric Power Plant is planned.

3. Vision for operation of the Kaunas Hydroelectric Power Plant: Depending on weather conditions, the power plant will produce the largest possible amount of "green" energy and provide system services.

4. Trading trends and activities:

Preparations are being made for trade in the integrated Baltic and Nordic system.

Upon construction of power links with Sweden and Poland, trade will become more active due to increased opportunities for trading power and system services in the linked systems.

The company will seek to retain its market share in Lithuania by effectively coordinating its production capacities and electricity purchases in Lithuania and neighbouring markets.

2011 Strategic Projects Implemented by Lietuvos energija, AB in 2011-2012

1. Construction of the Combined Cycle Gas Turbine (CCGT) Unit at the Lithuanian Power Plant

In 2011-2012, the company's largest and most important project is the construction of a new 455 MW combined-cycle unit (CCGT) at the LPP. The unit is planned to be put

into operation in September, 2012. An agreement concerning the construction of the combined cycle unit was signed with Iberdrola Ingenieria y Construccion, S.A.U. in the end of April, 2009.

It is planned that the output of the unit will be more than 59%. The CCGT will be able to generate as 20-25% of the country's electric demand. Efficiency of the new unit will be self-evident, as it will use 30% less natural gas than the current units to produce the same amount of energy. The significance of this project is not limited to Lithuania: the new unit will help supply electricity to consumers in other Baltic countries as well.

The estimated cost of the new unit construction project is LTL 1.3 billion. The project is financed by the European Union, the European Bank for Reconstruction and Development, and commercial banks. The company is contributing part of its own funds to the project as well.

The CCGT project is the second in the Baltic States in which the 9FB gas turbine technology supplied by General Electric is being used. This turbine design is one of the most advanced in the world. Similar equipment was installed during the expansion of the Riga Cogeneration Power Plant II – the largest heat generation plant in Latvia.

2. Use of renewable energy resources for heat generation in Elektrėnai

One of the main objectives of the implementation of new heat generation technologies in Elektrėnai is to offer competitive heat prices to residents of the Elektrėnai region. Upon completion of the feasibility study, a specific design solution and a detailed implementation plan will be proposed. It is planned that new technologies will be launched, and heat produced with biomass will reach Elektrėnai

residents at the end of 2013.

3. Preparations for the construction of an underground gas storage facility

With the aim of constructing an underground gas storage facility which would enable the accumulation of the requisite reserve of natural gas, Lietuvos energija, AB is carrying out Phase II of the feasibility study – drilling of exploratory wells to supplement the seismic investigations that were carried out earlier. Upon completion of the geologic-geophysical structural investigations, it will be possible to assess the characteristics of the reservoir and its protective layer and to determine its suitability for the underground storage facility. This stage of the feasibility study is set to be completed in Quarter II of 2013.

Assessment of the Development of the Kruonis PSHPP

In the first half of 2012, the possibility of implementing a development project at the Kruonis PSHPP will be assessed; the project would make it possible to increase the capacity of the Kruonis PSHPP by 225-250 MW, for a total of 1125-1150 MW. The new equipment would help to effectively change the capacity of the power plant: to increase the range of the power system regulation capacities and reliably control wind farms balance irregularities arising from changing operating conditions.

The new equipment would be installed by adapting the existing structures, foundations, buildings, equipment and engineering infrastructure. Competent authorities have concluded that the planned development of the Kruonis PSHPP will not produce a negative impact on the environment.

HUMAN RESOURCE POLICY

LIETUVOS ENERGIJA, AB HUMAN RESOURCE POLICY WAS LARGELY IMPACTED BY THE AUGUST 1, 2011 REORGANISATION, BY WHICH AB LIETUVOS ENERGIJA AND AB LIETUVOS ELEKTRINĖ WERE MERGED.

Human Resource Policy

Lietuvos energija, AB human resource policy was largely impacted by the August 1, 2011 reorganisation, by which AB Lietuvos energija and AB Lietuvos elektrinė were merged. The formation of a new, uniform organisational culture has become the main challenge in the area of human resource management. Much attention is being paid to the strengthening of internal communication and cooperation, employee motivation, the development of professional skills and increasing operational efficiency.

Employee Development

Based on its Competence Model, the company aims to provide directional training for its employees and improve their professional skills; for this reason, employees are encouraged to take part in professional continuing education courses and conferences. During professional training courses, employees refresh the technical knowledge that is necessary for their jobs, and receive relevant qualification certificates. Much attention is paid to the development of management and personal efficiency skills; during training, employees become acquainted with innovations and best practices in the energy sector, and develop their communication, teamwork and project management skills. 138 employees from the company's production units, as well as 92 administration employees and managers, participated in professional training in 2011.

Another important and useful means of improving professional skills that the company provides its employees is familiarisation with global best practices. In 2011, company managers and specialists had the opportunity to become acquainted with best practices and acquire useful experience at energy companies not only in Lithuania, but in Latvia, Estonia, Poland, Belgium and Spain as well. They took part in internships, and participated in workshops and meetings with chief specialists of foreign companies.

In the 2011 survey, the areas that were given **the best evaluation by the employees** were the working environment, the work of direct superiors, and cooperation.

Management Development

A professional, enterprising and collaborative team of managers that is able to rally employees for the achievement of strategic goals is one of the main objectives of the Lietuvos energija, AB human resource policy. Programmes for the continuing training of top and intermediate-level managers were launched in 2011. The purpose of these programmes is to improve management and leadership skills, with an emphasis on the role of managers in the introduction of a new organisational culture and code of conduct, as well as in the development and motivation of employees. A 360-degree system for the evaluation of manager competence was implemented by the company in 2011. Managers receive feedback about competence directly from the working environment. The results of the 360-degree evaluation are taken into account in drawing up training programmes for managers and in discussing directions of personal development with individual employees.

Employee Opinion Surveys

The company conducts an employee opinion survey once per year in order to ascertain the opinions of employees concerning important fields of activity, such as the working environment and organisational culture, dissemination of information, career and development opportunities, remuneration and recognition. During the survey, employees complete an anonymous questionnaire. Once the results of the survey have been analysed, the company draws up an action plan which provides for improvement in areas that were poorly evaluated by employees. In the 2011 survey, the areas that were given the best evaluation by the employees were the working environment, the work of direct superiors, and cooperation, while dissemination of information within the company and the motivation system were rated the most poorly. Taking these results into account, the company included initiatives such as improvement of the internal communication process, and implementation of a new remuneration and motivation system, in the action plan. In executing the aforementioned action plan in 2011, the company improved internal communication processes, updated its intranet page, and introduced information



terminals for employees without computerized workstations. Development of a new remuneration and recognition system was also begun in 2011.

Employee Remuneration and Recognition

The company seeks to remunerate its employees based on their level of competence and job performance. According to the company's human resources policy, the system of remuneration and recognition must be based on principles of fairness, clarity, all-inclusiveness and comparison. The company seeks to ensure that each employee is aware of where his/her job is positioned according to the company's matrix

of job levels, what his/her possible career directions are, and how his/her performance is linked to remuneration.

As no company can disregard the market situation when setting pay limits for employees in certain positions, the company, in an effort to attract and retain qualified specialists, monitors and analyses salary conditions in the market and compares them with the situation in the company. It is expected that a new remuneration and performance evaluation system will be launched in Quarter II of 2012. According to the concept of the system being developed, pay brackets set for specific positions, as well as the competence-based salary of each employee, will be subject to review on an annual basis.

Employee Care



Collaboration with Trade Unions

The company's management works in close collaboration with the trade unions: regular meetings are held during which the company's strategic plans and development projects are presented to the trade unions, human resource policy issues are resolved, and projects related to the company's operational organisation and organisational structure are planned.

On October 28, 2011, Lietuvos energija, AB signed a new collective agreement with the trade unions. The collective agreement covers such issues as working and rest time, remuneration for work, additional social benefits for employees, health and safety at work, and social care. Some of the working conditions stipulated in the collective agreement are more beneficial to the employees than those established in the labour laws of the Republic of Lithuania.

Additional Benefits for Employees

Employees are the most valuable asset of Lietuvos energija, AB. Each is important by way of his/her knowledge, experience, ideas, and uniqueness. Lietuvos energija, AB strives to be a place where employees feel that they are successfully fulfilling their professional potential, and receiving the recognition that is due. When we speak about recognition, it is not just pay for work that we have in mind; recognition also includes all of the benefits and advantages that the company provides for its employees.

Non-material benefits:

- Organisational culture – clear fundamental values and code of conduct;
- Growth – career and development opportunities;
- Communication – opportunity to receive information, involvement and participation;
- Teamwork – being part of a team;
- Self-realization – important and meaningful work.

Fringe benefits:

- Extra paid annual leave depending on service record;
- One-off social benefits;
- 100% pay for the first two days of sick leave;
- Opportunity to receive vaccination for seasonal illnesses;
- Transportation to/from work at the company's cost;
- Additional advantages for student and pension-aged employees.

Social Responsibility

Support for the environment in which a company operates is of utmost significance for the success and direction of company operations. The specific character of the operations of Lietuvos energija, AB, as a producer of electricity, is closely related to the physical environment and local community. As it works and spends the bulk of its time in the town of Elektrėnai, it is important for the company to keep in strong and sincere contact with the employees, and establish a friendly relationship with the local community that is based on collaboration initiatives.

As a responsible member of society and an employer, Lietuvos energija, AB contributes to the welfare of the residents not only by ensuring stable production, import and export of electricity. Ecological, economic and educational initiatives, carried out in conjunction with the local community, are also of importance to the company.

The company is proud of its team of competent employees and considers it its greatest asset. In order to encourage development, various courses of instruction are organised. The company therefore takes active part in Career Days organised by national schools of higher education, where the company's representatives have a chance to meet and talk to potential trainees and employees. In 2011, the company participated in Career Days at Kaunas University of Technology and University of Management and Economics (ISM), where it received particularly active feedback – a considerable number of students expressed interest in internship possibilities (over 100 completed questionnaires).

Lietuvos energija, AB also took part in the Energetics Day event at the Museum of Energy and Technology, where it made a presentation of its activities and held a discussion with the audience. Year round, excursions are organised at the power plants for schoolchildren interested in the company's activities. Educational excursions for adults are organised as well.

Headquartered in Elektrėnai since 2010, the company distributed reflectors to the residents as a preventive measure to improve safety on the town's dark roads. In collaboration with the town's educational establishments - kindergartens, primary and secondary schools, the vocational training centre, the high school, and the children's home – the company gave children reflectors and pencils for the first day of school. An initiative of educational afternoon events is planned to be implemented together with the town's secondary schools, the high school, and the Kaunas University of Technology.

In 2011, the company celebrated holidays in its traditional way - Christmas parties for the employees and their children, and a February 16th celebration to both commemorate Independence Day and honour the company's best employees. The employees competed enthusiastically in both the spring Olympics in Elektrėnai, and the family sports competition that takes place in Šventoji in summer. The company is proud of the Lithuanian Power Plant employees who spend their spare time playing in an in-house band and please their colleagues with their music at corporate events.

Employees of the company take part in social events. In 2011, employees participated in the "Let's Do It" clean up campaign by helping pick up litter in the town of Elektrėnai. The company encourages its employees to recycle and to save paper, heat and electricity – and making this a habit at home as well. In 2011, the company also successfully implemented the "Help Children by Giving Your Old Phone" campaign - employees collected old mobile phones and delivered them to a recycling company; the money that was received for the phones was donated to a children's home. The employees also participated in several voluntary blood donation campaigns in 2011.

Lietuvos energija, AB hopes that these initiatives will bring the company closer not just to its employees, but to the communities with which its operations cohabit as well.