

INTER RAO Lietuva AB
Consolidated and parent company's financial statements
for the year ended 31 December 2012,
prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union
presented together with independent auditor's report

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Independent auditor's report to the shareholders of AB INTER RAO Lietuva

Report on Financial Statements

We have audited the accompanying financial statements of AB INTER RAO Lietuva, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB INTER RAO Lietuva and its subsidiaries (hereinafter the Group), which comprise the statements of financial position as of 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2012 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matters

This Independent Auditor's Report dated 26 February 2013 issued on the Company's and the Group's financial statements for the year ended 31 December 2012 prepared in accordance with IFRS as adopted by the European Union, as far as it relates to the separate Company's financial statements, replaces the unqualified Independent Auditor's Report issued on 19 February 2013 on the Company's separately issued set of financial statements for the year ended 31 December 2012 prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying consolidated Annual Report for the year ended 31 December 2012 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2012.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335



Asta Štreimikienė
Auditor's licence No. 000382

The audit was completed on 26 February 2013.

Financial Report

Statement of financial position

	Notes	Group		Company		
		As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011	As at 1 January 2011
ASSETS						
Non-current assets						
Intangible assets						
Goodwill		6,926	6,926	-	-	-
Operating license		33,430	37,609	-	-	-
Other intangible assets		-	318	-	-	-
Total intangible assets	4	40,356	44,853	-	-	-
Property, plant and equipment						
Land		2,829	2,657	-	-	-
Buildings and structures		12,304	12,893	-	-	-
Premises		3,711	-	3,711	-	-
Machinery and equipment		68,653	71,837	10	24	45
Other property, plant and equipment		229	288	181	236	345
Total property, plant and equipment	5	87,726	87,675	3,902	260	390
Investment property	6	623	662	623	662	835
Interest in a joint venture and subsidiaries	1, 7	1,707	2,630	33,725	32,041	2,692
Other non-current financial assets	8	3,555	3,573	102	120	150
Deferred tax asset		291	-	-	-	-
Total non-current assets		134,258	139,393	38,352	33,083	4,067
Current assets						
Inventories and prepayments	9	358	6,723	294	6,647	8,456
Accounts receivable						
Trade receivables	10	60,084	45,086	57,315	40,863	45,672
Receivables from subsidiaries and joint venture	28	-	-	578	226	-
Other receivables	11	1,026	34	6	5	14,554
Total accounts receivable		61,110	45,120	57,899	41,094	60,226
Prepaid income tax		1,118	-	1,118	-	-
Other current assets		855	321	731	204	101
Cash and cash equivalents	12	11,218	33,885	5,345	31,341	81,932
Total current assets		74,659	86,049	65,387	79,286	150,715
Total assets		208,917	225,442	103,739	112,369	154,782

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

Statement of financial position (cont'd)

	Notes	Group		Company		
		As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011	As at 1 January 2011
EQUITY AND LIABILITIES						
Equity						
Share capital	1	20,000	1,000	20,000	1,000	1,000
Legal reserves	13	100	100	100	100	100
Cash flow hedge reserve	16	(1,651)	-	-	-	-
Retained earnings		38,141	63,050	37,925	64,023	60,795
Total equity		56,590	64,150	58,025	65,123	61,895
Liabilities						
Non-current liabilities						
Non-current borrowings	14	43,121	43,121	-	-	-
Financial lease obligations	15	42,878	52,499	-	-	-
Derivative financial instruments	16	1,647	-	-	-	-
Deferred income tax liability	23	8,131	8,040	-	-	-
Total non-current liabilities		95,777	103,660	-	-	-
Current liabilities						
Current portion of non-current borrowings	14	-	82	-	-	-
Current portion of financial lease obligations	15	8,423	8,600	-	-	-
Derivative financial instruments	16	880	-	-	-	-
Trade payables	17	39,164	31,797	39,065	31,520	70,503
Income tax payable		588	6,673	-	6,081	5,309
Advances received		334	-	331	10	-
Other current liabilities	18	7,161	10,480	6,318	9,635	17,075
Total current liabilities		56,550	57,632	45,714	47,246	92,887
Total equity and liabilities		208,917	225,442	103,739	112,369	154,782

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

General Manager

Giedrius Balčiūnas

26 February 2013

Economic Director



Paulius Vazniokas

26 February 2013

Statement of comprehensive income

	Notes	Group		Company	
		2012	2011	2012	2011
Sales	3,19	897,435	919,080	877,301	907,603
Cost of sales	20	(800,738)	(827,115)	(794,442)	(823,599)
Gross profit		96,697	91,965	82,859	84,004
General and administrative expenses	21	(23,568)	(18,701)	(17,671)	(13,188)
Profit from operations		73,129	73,264	65,188	70,816
Finance income	22	296	482	903	3,435
Finance expenses	16,22	(5,127)	(2,432)	(13)	(26)
Share of result of joint venture	7	(173)	286	-	-
Profit before tax		68,125	71,600	66,078	74,225
Income tax	23	(10,011)	(10,400)	(9,153)	(10,202)
Net profit		58,114	61,200	56,925	64,023
Other comprehensive income					
Net (loss) on cash flow hedges		(1,942)	-	-	-
Income tax effect		291	-	-	-
Other comprehensive income, net of tax		(1,651)	-	-	-
Total comprehensive income for the year, net of tax		56,463	61,200	56,925	64,023
Basic and diluted earnings per share (LTL)	24	12.51	61.20		

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

General Manager	Giedrius Balčiūnas		26 February 2013
Economic Director	Paulius Vazniokas		26 February 2013

Statement of changes in equity

Group

Notes	Equity attributable to equity holders of the parent				
	Share capital	Legal reserve	Cash flow hedge reserve	Retained earnings	Total
Balance as at 1 January 2011	1,000	100	-	62,645	63,745
Net profit for the year	-	-	-	61,200	61,200
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income	-	-	-	61,200	61,200
Dividends declared	25	-	-	(60,795)	(60,795)
Balance as at 31 December 2011	1,000	100	-	63,050	64,150
Increase in share capital	1	19,000	-	(19,000)	-
Net profit for the year	-	-	-	58,114	58,114
Other comprehensive income, net of tax	16	-	(1,651)	-	(1,651)
Total comprehensive income	-	-	(1,651)	58,114	56,463
Dividends declared	25	-	-	(64,023)	(64,023)
Balance as at 31 December 2012	20,000	100	(1,651)	38,141	56,590

Company

Notes	Share capital	Legal reserve	Retained earnings	Total
Balance as at 1 January 2011	1,000	100	60,795	61,895
Net profit for the year	-	-	64,023	64,023
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	64,023	64,023
Dividends declared	25	-	(60,795)	(60,795)
Balance as at 31 December 2011	1,000	100	64,023	65,123
Increase in share capital	1	19,000	(19,000)	-
Net profit for the year	-	-	56,925	56,925
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	56,925	56,925
Dividends declared	25	-	(64,023)	(64,023)
Balance as at 31 December 2012	20,000	100	37,925	58,025

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

General Manager	Giedrius Balčiūnas		26 February 2013
Economic Director	Paulius Vazniokas		26 February 2013

Statements of cash flows

	Notes	Group		Company	
		2012	2011	2012	2011
Cash flows from (to) operating activities					
Net profit		58,114	61,200	56,925	64,023
Adjustments for non-cash items:					
Income tax expenses	23	10,011	10,400	9,153	10,202
Depreciation and amortisation	20, 21	8,784	4,893	396	352
Impairment of goodwill	4	-	3,000	-	-
Result of non-current assets sold		(24)	-	(25)	-
Share of net profit of joint venture	7	173	(286)	-	-
Interest and dividend (income) expenses	22	4,135	1,829	(903)	(3,282)
		81,192	81,036	65,546	71,295
Changes in working capital:					
Decrease in inventories and prepayments		6,365	1,809	6,353	1,809
(Increase) decrease in accounts receivable and other current assets		(16,524)	2,406	(17,332)	4,827
Decrease in other non-current assets		12	54	12	25
Increase (decrease) in trade payables		7,367	(38,902)	7,545	(38,983)
Income tax (paid)		(17,123)	(1,547)	(16,352)	(1,548)
(Decrease) in other current liabilities		(2,985)	(15,982)	(2,996)	(15,312)
Net cash flows from operating activities		58,304	28,874	42,776	22,113
Cash flows from (to) investing activities					
(Acquisition) of non-current assets		(4,305)	(49)	(4,004)	(49)
Proceeds from sale of non-current assets		30	-	30	-
(Acquisition) of investments in subsidiaries (net of cash acquired in the Group)		-	(71,355)	(1,684)	(29,349)
Interest and dividends received		1,797	3,326	903	3,282
Loans repaid		6	5	6	5
Other investing activities		-	666	-	-
Net cash flows (to) investing activities		(2,471)	(67,407)	(4,749)	(26,111)


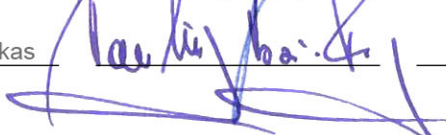
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The accompanying notes are an integral part of these financial statements.

Statements of cash flows (cont'd)

	Group		Company	
	2012	2011	2012	2011
Cash flows from (to) financing activities				
Dividends (paid)	29	(64,023)	(46,593)	(64,023)
Proceeds from loans		-	43,121	-
Interest (paid)		(4,679)	(2,242)	-
Financial lease (payments)		(9,798)	(3,800)	-
Net cash flows (to) financing activities		(78,500)	(9,514)	(64,023)
Net increase (decrease) in cash and cash equivalents		(22,667)	(48,047)	(50,591)
Cash and cash equivalents at the beginning of the year		33,885	81,932	31,341
Cash and cash equivalents at the end of the year		11,218	33,885	5,345

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

General Manager	Giedrius Balčiūnas		26 February 2013
Economic Director	Paulius Vazniokas		26 February 2013

AB INTER RAO LIETUVA
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 December 2012
(all amounts are in LTL thousand unless otherwise stated)

Notes to the financial statements

1 General information

AB INTER RAO Lietuva (hereinafter, "the Company") is a private limited liability company registered in the Republic of Lithuania. Its registered office is located at:

A.Tumėno str. 4, Vilnius
Lithuania

The Company was registered on 21 December 2002. On 22 October 2012 the Company changed its legal status from private limited liability company to public limited liability entity due to the listing on the Warsaw stock exchange. Since 18 December 2012 the Company's shares are traded on the Warsaw Stock Exchange on the Main trade list.

The Company's core line of business is supply of electricity. On 7 March 2003 the Company received a license No. L1-NET-14 of an independent electricity supplier entitling the Company to supply electricity in Lithuania. On 23 October 2003 the Company received a unlimited-term permission No. LE-0004 for electricity export, and on 31 May 2004, the unlimited-term permission No. LI-0002 for electricity import in Lithuania. As further described in Note 31, in January 2013 the Company received the unlimited-term permissions for electricity export and import from/to Russia and Belarus.

The subsidiary SIA INTER RAO Latvia received a license No. E14036 of an independent electricity supplier in Latvia, which is valid until 28 February 2015. On 3 December 2012 the subsidiary OU INTER RAO Eesti received a termless license No. 7.2-3/12-042 of an independent electricity supplier in Estonia. On 10 October 2011 the subsidiary Vydmantai wind park UAB received a termless permit to produce electricity No. LG - 0238.

As at 31 December 2012 and 2011 the shareholders of the Company were as follows:

	31 December 2012		31 December 2011	
	Number of shares held	Interest held	Number of shares held	Interest held
RAO Nordic Oy, company code 1784937-7, Tammasaarekatu 1, Helsinki, Finland	10,200,000	51%	510	51%
UAB Scaent Baltic, company code 300661378, A.Tumėno str. 4, Vilnius, Lithuania	5,800,000	29%	490	49%
Other shareholders	4,000,000	20%	-	-
Total	20,000,000	100%	1,000	100%

The ultimate parent company is JSC INTER RAO UES, company code 2320109650, address Bolshaya Pirogovskaya st. 27, building 3. Moscow 119435, Russian Federation.

As at 31 December 2011 the Company's share capital was comprised of 1,000 ordinary shares with the par value of LTL 1,000 each. On 20 July 2012, the General Shareholders Meeting adopted a resolution to increase the share capital from LTL 1,000,000 to LTL 20,000,000, and to divide the share capital into 20,000,000 ordinary registered shares with a nominal value of LTL 1 each. Such an increase in share capital was made by converting 1,000 ordinary registered shares of the Company with a nominal value of LTL 1,000 into 1,000,000 ordinary registered shares with a nominal value of LTL 1 each, and by issuing 19,000,000 new ordinary registered shares using the retained earnings of the Company. The new share capital was registered with the Register of Legal Entities of the Republic of Lithuania on 22 October 2012. The share capital was fully paid as at 31 December 2012 and 2011. The Company did not hold its own shares in 2012 and 2011. As at 31 December 2012 and 2011, the subsidiaries and the joint venture did not hold any shares of the Company..

The number of employees in the Group and the Company as at 31 December 2012 was 37 and 20 respectively (24 and 24 in 2011, respectively).

The management of the Company approved these financial statements on 26 February 2013. This set of financial statements approved by the management on 26 February 2013 and comprising the separate Company's and consolidated Group's financial statements for the year ended 31 December 2012 contains full financial information and other disclosures included in the separate Company's financial statements, which were approved and issued as a separate set on 19 February 2013. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

AB INTER RAO LIETUVA
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 December 2012
(all amounts are in LTL thousand unless otherwise stated)

1 General information (cont'd)

As at 31 December 2012 the Group consisted of the Company and the following directly and indirectly controlled subsidiaries and joint venture (hereinafter, the Group):

Company	Company code	Directly and indirectly held effective attributable interest	Investment value (cost)	Profit (loss) for 2012	Equity as at 31 December 2012	Registration address	Activity
OU INTER RAO Eesti - subsidiary	11879805	100 %	110	(91)	18	Vaikare-Karja 3/Sauna 2, Tallinn, Estonia	Trade of electricity (no active operations in 2012)
SIA INTER RAO Latvia - subsidiary	40103268639	100 %	10	278	295	Elizabetes iela 15-1, Riga, Latvia	Trade of electricity
Sp. z o.o. IRL Polska - subsidiary	0000436992	100 %	1,684	-	1,684	W.Kosciuszko wskie 43-2. Warsaw, Poland	Trade of electricity (no active operations in 2012)
UAB Alproka – joint venture	125281684	49.99 %	2,572	(346)	3,415	Lvovo Str. 25, Vilnius, Lithuania	Operations with real estate
UAB IRL Wind - subsidiary	302615372	100 %	29,349	6,240	32,406	A.Tumėno Str. 4, Vilnius, Lithuania	Holding company
UAB Vydmantai wind park (indirectly owned subsidiary - managed through UAB IRL Wind)	302666616	100 %	77,199	8,372	37,989	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

Acquisition of investments in 2012

On 17 September 2012 the Company incorporated a 100% owned entity Sp. z o.o. IRL Polska in Poland with a registered share capital of LTL 1,684 thousand with a purpose of electricity trading. In 2012 the subsidiary did not perform active operations.

As at 31 December 2011 the Group consisted of the Company and the following directly and indirectly controlled subsidiaries and joint venture (hereinafter, the Group):

Company	Company code	Directly and indirectly held effective attributable interest	Investment value (cost)	Profit (loss) for 2011	Equity as at 31 December 2011	Registration address	Activity
OU INTER RAO Eesti - subsidiary	11879805	100 %	110	-	109	Vaikare-Karja 3/Sauna 2, Tallinn, Estonia	Trade of electricity (no active operations in 2011)
SIA INTER RAO Latvia - subsidiary	40103268639	100 %	10	140	33	Elizabetes iela 15-1, Riga, Latvia	Trade of electricity
UAB Alproka – joint venture	125281684	49.99 %	2,572	573	5,262	Lvovo Str. 25, Vilnius, Lithuania	Operations with real estate
UAB IRL Wind - subsidiary	302615372	100 %	29,349	(1,240)	28,109	A.Tumėno Str. 4, Vilnius, Lithuania	Holding company
Vydmantai wind park, UAB (indirectly owned subsidiary - managed through UAB IRL Wind)	302666616	100 %	77,199	4,233	38,617	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

AB INTER RAO LIETUVA
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 December 2012
(all amounts are in LTL thousand unless otherwise stated)

1 General information (cont'd)

Acquisition of investments in 2011

In April 2011 the Company established a 100% owned entity UAB IRL Wind.

On 15 July 2011 the Group acquired 100% UAB Vėjų spektras shares with the purpose to acquire wind energy generation business. UAB Vėjų spektras was later reorganized by spinning off and transferring separate wind energy generation business to a newly established Vydmantai wind park, UAB.

The differences between the amounts paid and the fair value of the acquired assets and liabilities were accounted for as goodwill. The goodwill is related to a market entry, i.e. to a new strategy to enter into the renewable energy generation industry. The net assets recognized are based on the final assessment of fair values.

There is no contingent consideration in relation to this business acquisition.

All the costs related to the above acquisitions were included into general and administrative expenses caption in the total amount of LTL 479 thousand.

The fair values of the acquired assets, liabilities and contingent liabilities at the acquisition date were as follows:

Date of acquisition	As at 15 July 2011
Intangible assets identified during acquisition	39,800
Land	2,735
Property, plant and equipment	87,349
Trade receivables	1,600
Other current assets	4,265
Cash and cash equivalents	5,844
Total assets	141,593
Non-current and current interest-bearing liabilities	62,471
Deferred tax liability	7,776
Other current liabilities	4,073
Total liabilities	74,320
Total identifiable net assets at the fair value	67,273
Goodwill arising on acquisition	9,926
Purchase consideration paid in cash	77,199
Cash acquired	(5,844)
The purchase price, excluding cash	71,355

The fair value of the trade receivables amounts to LTL 1,600 thousand and corresponds to the gross amount of trade receivables. None of the trade receivables were impaired and shortly after the acquisition the full contractual amounts were collected.

From the date of acquisition till 31 December 2011, wind energy generation business unit has contributed LTL 10,963 thousand of revenue and LTL 5,173 to the net profit of the Group. If the combination had taken place at the beginning of the year 2011, revenue would have been higher by LTL 10,126 thousand and the net profit before tax would have been higher by approximately LTL 2,823 thousand.

Goodwill allocation

The goodwill as at 31 December 2012 and 2011 was allocated to the wind energy generation business unit – namely the subsidiary Vydmantai wind park, UAB.

AB INTER RAO LIETUVA
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 December 2012
(all amounts are in LTL thousand unless otherwise stated)

2 Accounting policies

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year 2012 are as follows:

2.1. Basis of preparation

As at 31 December 2011 and in earlier periods the Company prepared its financial statements in accordance with Lithuanian Business Accounting Standards (BAS). These financial statements are the Company's first financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (hereinafter – EU).

In accordance with IFRS 1, the Company has prepared these financial statements according to IFRS as adopted by the EU which are applicable to the periods starting from or after 1 January 2012: the accounting principles applied are presented below. These IFRS financial statements also include an opening statement of financial position as at the transition date – 1 January 2011. The main adjustments made at 1 January 2011 and 31 December 2011 on transition from BAS to IFRS are disclosed in Note 30.

The Group has prepared these financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (hereinafter the EU). The first Group's financial statements prepared in accordance with IFRS as adopted by the EU were issued for the year ended 31 December 2011.

These financial statements are prepared based on a historical cost basis except for those assets or liabilities measured at fair value.

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

During the year the Group and the Company has adopted the following IFRS amendments:

- amendment to IFRS 7 *Financial Instruments* - Enhanced Derecognition Disclosure Requirements,
- amendment to IAS 12 *Income tax* - Deferred tax - Recovery of Underlying Assets.

The amendments did not impact the financial statements of the Group and the Company, because the Group and the Company did not have items or transactions addressed by these changes.

Standards issued but not yet effective

The Group and the Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

Amendment to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (effective for financial years beginning on or after 1 July 2012)

The amendments to IAS 1 change the Companying of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's and Group's financial position or performance.

Amendment to IAS 19 Employee Benefits (effective for financial years beginning on or after 1 January 2013)

There are numerous amendments to IAS 19, they range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Since the Company and the Group don't operate any pension plans or other IAS 19 items affected by these amendments, the Company and the Group don't expect any material impact from this amendment.

Amendment to IAS 27 Separate Financial Statements (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The Company and the Group has not yet evaluated the impact of the implementation of this amendment.

Amendment to IAS 28 Investments in Associates and Joint Ventures (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The Company and the Group has not yet evaluated the impact of the implementation of this amendment.

AB INTER RAO LIETUVA
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
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(all amounts are in LTL thousand unless otherwise stated)

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Amendment to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
(effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Company and the Group has not yet evaluated the impact of the implementation of this amendment.

Amendment to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
(effective for financial years beginning on or after 1 January 2013)

The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The Company and the Group has not yet evaluated the impact of the implementation of this amendment.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Company and the Group has not yet evaluated the impact of the implementation of this standard.

IFRS 10 *Consolidated Financial Statements* (effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 11 *Joint Arrangements* (effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The Company and the Group has not yet evaluated the impact of the implementation of this standard.

IFRS 12 *Disclosures of Interests in Other Entities* (effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The Company and the Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities* (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the Company and the Group, as the Company is not an investment entity.

IFRS 13 *Fair Value Measurement* (effective for financial years beginning on or after 1 January 2013)

The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The Company and the Group has not yet evaluated the impact of the implementation of this standard.

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2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Improvements to IFRSs (effective for financial years beginning on or after 1 January 2013, once endorsed by the EU)

In May 2012 IASB issued omnibus of necessary, but non-urgent amendments to its five standards:

- IFRS 1 *First-time adoption of IFRS*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 32 *Financial instruments: Presentation*;
- IAS 34 *Interim Financial Reporting*.

The adoption of these amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Company and the Group.

IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for financial years beginning on or after 1 January 2013)

This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Interpretation will have no impact on the Company's and the Group's financial statements, as the Company and the Group are not involved in mining activity.

The Company and the Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

2.2. Measurement and presentation currency

The amounts shown in these financial statements are presented in the local currency of the Republic of Lithuania, Litas (LTL), rounded to LTL thousand, unless otherwise stated.

The functional currency of the Company and its subsidiaries operating in Lithuania is Litas. The functional currencies of foreign subsidiaries are the respective foreign currencies of the country of residence. Items included in the financial statements of these subsidiaries are measured using their functional currency.

Transactions in foreign currencies are initially recorded in the functional currency as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange as at the date of the statement of financial position.

The assets and liabilities of foreign subsidiaries are translated into Litas at the reporting date using the rate of exchange as at the date of the statement of financial position, and their statements of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on this translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in the income statement.

Non-current receivables from or loans granted to foreign subsidiaries that are neither planned nor likely to be settled in the future are considered to be a part of the Company's net investment in the foreign operation. In the Group's consolidated financial statements the exchange differences recognized in the separate financial statements of the subsidiary in relation to these monetary items are reclassified to other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in the income statement.

Starting from 2 February 2002, Lithuanian Litas is pegged to Euro at the rate of 3.4528 Litas for 1 Euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2.3. Principles of consolidation

The consolidated financial statements of the Group include UAB INTER RAO Lietuva and its subsidiaries as well as joint venture. The financial statements of the subsidiaries and joint venture are prepared for the same reporting year, using consistent accounting policies.

Subsidiaries are consolidated from the date from which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies have been eliminated. The equity and net income attributable to non-controlling interests, if any, are shown separately in the statement of financial position and the statement of comprehensive income.

2 Accounting policies (cont'd)

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2.3. Principles of consolidation (cont'd)

Total comprehensive income of a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

Acquisitions and disposals of non-controlling interest by the Group are accounted as equity transaction: the difference between the carrying value of the net assets acquired from/disposed to the non-controlling interests in the Group's financial statements and the acquisition price/proceeds from disposal is accounted directly in equity.

Interest in a joint venture

The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the equity method.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4. Investments (in the Company's accounts)

Interest in a joint venture

The Company has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Company accounts for its interest in the joint venture at cost less impairment.

Interests in subsidiaries

Investments in subsidiaries are measured at cost less impairment in the statement of financial position of the Company. Accordingly, the investment is initially recognised at cost, being the fair value of the consideration given subsequently adjusted for any impairment losses. The carrying value of the investment is tested for impairment when events or changes in circumstances indicate that the carrying value may exceed the recoverable amount (higher of the two: fair value less costs to sell and value in use) of the investment. If such indications exist, the Company makes an estimate of the investment's recoverable amount. Where the carrying amount of an investment exceeds its estimated recoverable amount, the investment is written down to its recoverable amount. Impairment loss is recognised in the statement of comprehensive income as financial expense for the period.

2 Accounting policies (cont'd)

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2.4. Investments (in the Company's accounts) (cont'd)

For the evaluation of impairment on investment into subsidiary UAB IRL Wind the value in use concept is applied. The recoverable amount of UAB IRL Wind is primarily determined by the value of its subsidiary Vydmantai wind park, UAB.

2.5. Intangible assets other than goodwill

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably.

The useful lives of all intangible assets are assessed to be finite.

After initial recognition, intangible assets with finite lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their expected useful lives (years), except for the wind farm operating license which validity term is indefinite, but the associated favourable fixed feed-in tariff expires in 2020.

The amortisation period of the wind farm operating license	9.5
The validity period of the contract of emission reduction units	1.5

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets other than goodwill.

Emission reduction units

Due to the nature of the Group activity (production of electricity from renewable sources) the Group is entitled to receive certain quantity of emission reduction units, depending on the quantity of electricity produced, which is estimated and verified annually during the special technical audit, although its performance date does not always coincide with the date of the financial statements preparation. Verified emission reductions units are treated as asset received free of charge for which inventory accounting principles are applied and it is accounted for at nominal acquisition cost, which is equal to zero. Emission reduction units are sold and sales result is recognized directly in the statement of comprehensive income at the moment of transaction.

2.6. Property, plant and equipment and investment property

Property, plant and equipment and investment property are stated at cost less accumulated depreciation and impairment losses.

The initial cost of property, plant and equipment and investment property comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment is ready for its intended use, such as repair and maintenance costs, are normally charged to the statement of comprehensive income in the period the costs are incurred.

The Group has leased plots of land on which it operates wind turbines. Those lease arrangements are classified as finance leases of the land. The initial cost of land leased is equal to the present value of future lease payments. For these purposes the applicable lease period was estimated at 21 years and the discount rate applied was 4.8%. Depreciation of land leased is calculated over the minimum lease period, because lease period represents useful life of land leased.

Depreciation is computed on a straight-line basis over the following estimated useful lives (years):

Land lease	21
Premises	15
Buildings and structures	8 - 20
Machinery and equipment (wind power plants)	20
Vehicles	5 - 10
Other fittings, fixtures, tools and equipment	3 - 6
Investment property (buildings and structures)	17

2 Accounting policies (cont'd)

2.6. Property, plant and equipment and investment property (cont'd)

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in property, plant and equipment and investment property.

An item of property, plant and equipment and investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

2.7. Financial assets

The Group's and the Company's financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in financial assets at fair value through profit or loss, held-to-maturity investments and loans and receivables categories. After initial recognition available-for-sale financial assets are measured at fair value with unrealized gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the income statement. The Group and the Company does not have any material available-for-sale financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivable are noticed and the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised (written off) when they are assessed as uncollectible.

The Company and the Group does not have held to maturity financial assets and financial assets at fair value through profit or loss.

2.8. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group and the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group and the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group and the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay.

2 Accounting policies (cont'd)

2.8. Derecognition of financial assets and liabilities (cont'd)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.9. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost of inventory is determined by the first-in, first-out (FIFO) method. Unrealisable inventory is fully written-off.

2.10. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank accounts as well as deposits in bank with original term equal to or less than 3 months.

2.11. Derivative financial instruments

The Group engages in swap contract for interest rate risk management purposes. Derivative financial instruments are initially recognized at cost. Subsequent to initial recognition and measurement, outstanding swaps and other financial instruments are carried in the statement of financial position at the fair value. Fair value is derived from quoted market prices, or using the discounted cash flow method applying effective interest rate (level 2 in fair value hierarchy). The estimated fair values of these contracts are reported on a gross basis as financial assets for contracts having a positive fair value; and financial liabilities for contracts with a negative fair value. Contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a net basis.

Gain or loss from changes in the fair value of outstanding forward contracts, swaps and other financial instruments, which are not classified as hedging instruments, are recognized in the statement of comprehensive income as they arise.

2.12. Hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction. The Group uses cash flow hedge.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other comprehensive income and the ineffective portion is recognized in the statement of comprehensive income (profit or loss). The gains or losses on effective cash flow hedges recognized initially in equity are either transferred to the statement of comprehensive income in the period in which the hedged transaction impacts the statement of comprehensive income or included in the initial measurement of the cost of the related asset or liability.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of comprehensive income (profit or loss) for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the statement of comprehensive income (profit or loss).

In 2012 the Group has entered into interest swap agreement with a purpose to hedge itself against a possible fluctuation/increase of EURIBOR on the loan taken from a bank, i. e. effectively switching the interest into a fixed rate (Note 14).

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2 Accounting policies (cont'd)

2.13. Borrowings

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

The Group capitalises borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. However, there were no borrowing costs matching the capitalisation criteria in 2012 and 2011.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings using the effective interest method.

2.14. Financial and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Financial lease

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease. The Group recognises financial leases as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate implicit in the financial lease agreement, when it is possible to determine it, in other cases, Group's incremental interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The depreciation is accounted for financial lease assets. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets cannot be depreciated over a period longer than lease term, unless the Group, according to the lease contract, obtains ownership at the end of the lease term.

Operating lease

Leases where the lessor retains all significant risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

2.15. Income tax

The Group companies are taxed individually, irrespective of the overall results of the Group. Income tax charge is based on profit for the year and considers deferred taxation. The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania, the Republic of Latvia, the Republic of Estonia and the Republic of Poland.

The standard income tax rate in Lithuania was 15 % in 2012 and 2011, in the Republic of Latvia – 15 %, in the Republic of Poland – 19%. In the Republic of Estonia – 0 % (though dividends paid are taxable).

Tax losses in Lithuania can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the company changes its activities due to which these losses were incurred except when the company does not continue its activities due to reasons which do not depend on the company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

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2 Accounting policies (cont'd)

2.16. Income tax (cont'd)

Deferred taxes are calculated using the liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the date of the statement of financial position.

Deferred tax assets have been recognised in the statement of financial position to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.17. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Sale of electricity is recognised at the time of delivery, based on the value of the volume supplied. Physical electricity sales and purchase contracts are accounted for on accrual basis as they are contracted with the Group's expected purchase, sale or usage requirements.

Physical electricity sales and purchases are done through the power exchange (Nord Pool Spot/Baltpool). The sales and purchases are netted on the Company and the Group level on an hourly basis and posted either as revenue or cost, according to whether the Company and the Group is a net seller or a net buyer during any particular hour.

Revenue from sales of produced electricity is recognised on accrual basis when transfer of risks and rewards has been completed.

Revenue from services is recognised when services are rendered.

Dividend income is recognised when the dividends are declared.

Interest income or expense are recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. It is included in finance income or expenses in the income statement.

2.18. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each reporting date.

For financial assets carried at amortised cost, whenever it is probable that the Company and the Group will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the statement of comprehensive income. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the statement of comprehensive income. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Other assets (excluding goodwill)

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of comprehensive income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted for in the same caption of the statement of comprehensive income as the impairment loss.

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2 Accounting policies (cont'd)

2.19. Use of judgments and estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation and amortisation (Notes 2.5, 2.6, 4, 5, 6 and 15), impairment evaluation of goodwill, including allocation of Group assets to cash generating units (Notes 2.3 and 6). The management also made judgment regarding net revenue presentation (Note 2.17). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.20. Contingencies

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities associated with business acquisitions. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2.21. Subsequent events

Subsequent events that provide additional information about the Group's position at the date of statement of financial position (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

3 Segment information

For management purposes, the Group is organized into business units based on type of activities and has two reportable segments:

- Purchase and sales of electricity;
- Production and sales of electricity.

The segment of purchase and sales of electricity includes operations of UAB INTER RAO Lietuva and SIA INTER RAO Latvia. Electricity is purchased from the main suppliers and sold in the Baltics and Belarus. The Group and the Company has entered into contracts for the purpose of the receipt and delivery of electricity in accordance with the entity's expected purchase, sale or usage requirements. Furthermore, the Group and the Company also perform trading sales of electricity on the power exchange.

The segment of production and sales of electricity includes operations of UAB Vydmantai wind park. This segment also includes assets and liabilities of UAB IRL Wind. Electricity is produced by wind turbines and sold to the Lithuanian electricity network operator - UAB LITGRID - and AB Lietuvos energija.

For management purposes, the Company is organized into a single business unit - purchase and sales of electricity, therefore this note does not include any disclosures on operating segments on the Company's level as they are the same as information provided by the Company in these financial statements.

No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on operating profit or loss and is measured consistently with profit from operations in the consolidated financial statements.

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3 Segment information (cont'd)

Finance income and expenses are allocated to individual segments as the underlying instruments are managed for each separate segment separately.

Taxes are not allocated to those segments as they are managed on a Group basis and are not allocated to operating segments.

Transfer prices between operating segments are based on the prices set by the management, which management considers being similar to transactions with third parties.

Operating Segments

The following tables present revenue, profit and certain asset and liability information regarding the reportable operating segments:

Group Year ended 31 December 2012	Electricity purchases and sales	Electricity production and sales	Total Segments	Adjustments and eliminations	Consolidated
Revenue					
External customers	878,373	19,062	897,435	-	897,435
Total revenue	878,373	19,062	897,435	-	897,435
Results					
Depreciation and amortisation	398	8,386	8,784	-	8,784
Interest income	137	142	279	-	279
Interest expenses	-	4,597	4,597	-	4,597
Share of loss of the joint venture	-	-	-	(173)	(173)
Segment operating profit	65,426	7,703	73,129	-	73,129
Segment assets	72,958	134,550	207,508	1,409	208,917
Segment liabilities	45,226	98,382	143,608	8,719	152,327

Segment assets and liabilities are presented after elimination of intercompany assets and liabilities within the segment, which are eliminated on consolidation.

Other disclosures

Interest in a joint venture	-	-	-	1,707	1,707
Capital expenditure	4,022	284	4,305	-	4,305

Capital expenditure consists of additions of property, plant and equipment, intangible assets, investment properties and assets from the acquisition of subsidiaries.

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3 Segment information (cont'd)

Group Year ended 31 December 2011	Electricity purchases and sales	Electricity production and sales	Total Segments	Adjustments and eliminations	Consolidated
Revenue					
External customers	908,117	10,963	919,080	-	919,080
Total revenue	908,117	10,963	919,080	-	919,080
Results					
Depreciation and amortisation	353	4,540	4,893	-	4,893
Interest income	432	46	478	-	478
Interest expenses	-	2,307	2,307	-	2,307
Share of profit of joint venture	-	-	-	286	286
Impairment loss	-	3,000	3,000	-	3,000
Segment operating profit	70,960	2,304	73,264	-	73,264
Segment assets	83,081	142,361	225,442	-	225,442
Segment liabilities	41,303	105,276	146,579	14,713	161,292

Segment assets and liabilities are presented after elimination of intercompany assets and liabilities within the segment, which are eliminated on consolidation.

Other disclosures

Interest in a joint venture	-	-	-	2,630	2,630
Capital expenditure	49	147,809	147,858	-	147,858

Capital expenditure consists of additions of property, plant and equipment, intangible assets, investment properties and assets from the acquisition of subsidiaries.

	31 December 2012	31 December 2011
Reconciliation of liabilities		
Segment operating liabilities	144,608	146,579
Deferred tax liabilities	8,131	8,040
Current tax payable	588	6,673
Group total liabilities	153,327	161,292
Reconciliation of assets		
Segment operating assets	207,508	225,442
Deferred tax asset	291	-
Prepaid income tax	1,118	-
Group total assets	208,917	225,442

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3 Segment information (cont'd)

Geographical information

The following table presents the Group's and the Company's geographical information on revenue based on the location of the customers:

	Group		Company	
	2012	2011	2012	2011
Lithuania	653,803	634,211	633,669	623,249
Latvia	179,425	255,420	179,425	254,905
Estonia*	50,105	29,449	50,105	29,449
Belarus	14,102	-	14,102	-
Total revenue	897,435	919,080	877,301	907,603

*Represents trading sales on a power exchange.

Revenue from each single customer exceeding 10% of the Company's revenue in 2012 amounted to LTL 177 million, LTL 174 million, LTL 165 million, LTL 106 million (2011: LTL 251 million and LTL 372 million).

Revenue from each single customer exceeding 10% of the Group's electricity purchases and sales segment revenue in 2012 amounted to LTL 177 million, LTL 174 million, LTL 165 million, LTL 106 million (2011: LTL 372 million and LTL 251 million). Revenue from each single customer exceeding 10% of the Group's electricity production and sales segment revenue in 2012 amounted to LTL 9,7 million and LTL 9,1 million (2011: LTL 5,1 million and LTL 4,7 million).

The major part of the Group's and Company's non-current assets is located in Lithuania. Non-current assets for this purpose consist of property, plant and equipment, investment property, intangible assets, non-current financial and other assets.

4 Intangible assets

Group	Operating license	Contract of emission reduction units	Goodwill	Total
Cost				
Balance as at 1 January 2011	-	-	-	-
Increase in assets as a result of business combination in 2011	39,350	450	9,926	49,726
Balance as at 31 December 2011	39,350	450	9,926	49,726
Balance as at 31 December 2012	39,350	450	9,926	49,726
Accumulated amortization and impairment				
Balance as at 1 January 2011	-	-	-	-
Impairment loss	-	-	3,000	3,000
Amortization for the period	1,741	132	-	1,873
Balance as at 31 December 2011	1,741	132	3,000	4,873
Amortization for the period	4,179	318	-	4,497
Balance as at 31 December 2012	5,920	450	3,000	9,370
Net book value as at 31 December 2011	37,609	318	6,926	44,853
Net book value as at 31 December 2012	33,430	-	6,926	40,356

The above intangible assets were identified during the purchase price allocation as a result of the business combination described in Note 1. Operating license is a license to produce wind generated electricity with an embedded favorable fixed feed-in tariff applied until 2020 (the license itself has no validity term although the benefit associated is temporal). The contract of emission reduction units (ERU) represents the right to be granted ERUs for free till the year end 2012 (Note 2.5) and further dispose ERUs in the market.

Amortization expenses of intangible assets are included into the general and administrative expenses caption in the statement of comprehensive income.

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4 Intangible assets (cont'd)

Goodwill impairment

For the purpose of the impairment test, the goodwill as at 31 December 2012 and 2011 was allocated to the following cash generating unit (CGU) – wind energy generation business unit – Vydmantai wind park UAB.

The recoverable amount of the cash generating unit as at 31 December 2012 and 2011 was determined based on the value in use calculation using cash flow projections based on the twenty-years financial forecasts prepared by the management. The pre-tax discount rate of 9.8 % in 2012 (10.2 % in 2011) was applied. Twenty years forecast was used in order to avoid artificial inflation of the revenue stream due to the fixed feed-in tariff applied to Vydmantai wind park UAB until 2020, starting with 2021 market prices will be applicable and, therefore, subsequent periods beyond 2020 have been added to the forecast using 3.3% growth rate in order to present a trend of future market prices. Significant assumptions used for the assessment of the value in use in 2012 and 2011 are described further:

- 1) the availability of wind turbines - will not fluctuate significantly over the first half of the forecasted period and in the remaining period will decrease due to a normal wear and tear of the equipment, regular maintenance of which is performed;
- 2) the efficiency of wind turbines (depending on the wind speed) – efficiency level in a long run is forecasted at the slightly lower than historical level due to a rather high level of unpredictability;
- 3) the electricity purchase price - revenues are expected to remain rather stable until 2020 due to a feed-in tariff applied, which ensures the purchases of electricity at a stable price, in the following years, electricity will be sold at market price, which is expected to be initially lower than the feed-in tariff and to increase over the period. Such forecasts are based on the Group's management estimate, since there is no reliable long-term prognosis; in addition, the Group is one of the most experienced players in this market.

As a result of the analysis above, no impairment was recognised in 2012 while the management recognised an impairment charge of LTL 3,000 thousand in 2011 against goodwill previously carried at LTL 9,926 thousand (since purchase price was agreed using slightly different assumptions), which was recorded within general and administrative expenses in the statement of comprehensive income and may not be reversed in the future under any circumstances.

In the opinion of the Group's management, the most important assumptions are the efficiency level (see above) and the discount rate. The discount rate is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital – WACC (8% as at 31 December 2012 and 8.5% as at 31 December 2011). In respect of the efficiency level, the management strongly believes that in the long run it can only increase (based on historical trends), which has a positive impact on CGU results. If the discount rate increased by 0.5% an additional goodwill impairment would amount to LTL 2.3 million as at 31 December 2012 in case all the rest of the assumptions remain constant. At the time of preparing these financial statements the management of the Group did not expect any significant changes in the assumptions used, including the discount rate, due to decrease of interest level in global markets.

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5 Property, plant and equipment

Movement of property, plant and equipment in 2012 and 2011 is presented below:

Group	Land*	Buildings and structures	Premises	Machinery and equipment	Other property plant and equipment	Total
Cost						
Balance as at 1 January 2011	-	-	-	-	978	978
Additions	-	-	-	-	49	49
Increase in assets as a result of business combination in 2011	2,735	13,295	-	74,020	33	90,083
Write-offs and disposals	-	-	-	-	(104)	(104)
Balance as at 31 December 2011	2,735	13,295	-	74,020	956	91,006
Additions	278	-	3,907	-	120	4,305
Write-offs and disposals	-	-	-	-	(185)	(185)
Balance as at 31 December 2012	3,013	13,295	3,907	74,020	891	95,126
Accumulated depreciation						
Balance as at 1 January 2011	-	-	-	-	588	588
Depreciation for the period	78	402	-	2,183	184	2,847
Write-offs and disposals	-	-	-	-	(104)	(104)
Balance as at 31 December 2011	78	402	-	2,183	668	3,331
Depreciation for the period	106	589	196	3,184	173	4,248
Write-offs and disposals	-	-	-	-	(179)	(179)
Balance as at 31 December 2012	184	991	196	5,367	662	7,400
Net book value as at 1 January 2011	-	-	-	-	390	390
Net book value as at 31 December 2011	2,657	12,893	-	71,837	288	87,675
Net book value as at 31 December 2012	2,829	12,304	3,711	68,653	229	87,726

*Land balance represents capitalised financial land lease.

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5 Property, plant and equipment (cont'd)

Company	Premises	Machinery and equipment	Other property plant and equipment	Total
Cost				
Balance as at 1 January 2011	-	156	822	978
Additions	-	-	49	49
Write-offs and disposals	-	-	(104)	(104)
Balance as at 31 December 2011	-	156	767	923
Additions	3,907	-	97	4,004
Write-offs and disposals	-	(108)	(78)	(186)
Balance as at 31 December 2012	3,907	48	786	4,741
Accumulated depreciation				
Balance as at 1 January 2011	-	111	477	588
Depreciation for the period	-	21	158	179
Write-offs and disposals	-	-	(104)	(104)
Balance as at 31 December 2011	-	132	531	663
Depreciation for the period	196	9	152	357
Write-offs and disposals	-	(103)	(78)	(181)
Balance as at 31 December 2012	196	38	605	839
Net book value as at 1 January 2011	-	45	345	390
Net book value as at 31 December 2011	-	24	236	260
Net book value as at 31 December 2012	3,711	10	181	3,902

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2012 amounts to LTL 4,248 thousand and LTL 357 thousand, respectively (LTL 2,847 thousand and LTL 179 thousand in the year 2011, respectively). These amounts are included into the general and administrative expenses in the statement of comprehensive income except for the amount of LTL 3,913 in 2012 (LTL 2,663 thousand in 2011), which is included in the cost of sales in the Group's statement of comprehensive income.

Land, buildings and structures, machinery and equipment are all leased under finance lease agreements (Note 15).

There were no material fully depreciated property, plant and equipment in the Group and the Company as at 31 December 2012 and 2011.

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6 Investment property

	<u>Buildings</u>
Cost	
Balance as at 1 January 2011	1,327
Balance as at 31 December 2011	1,327
Balance as at 31 December 2012	1,327
Accumulated depreciation	
Balance as at 1 January 2011	492
Depreciation for the period	173
Balance as at 31 December 2011	665
Depreciation for the period	39
Balance as at 31 December 2012	704
Net book value as at 1 January 2011	835
Net book value as at 31 December 2011	662
Net book value as at 31 December 2012	623

As at 31 December 2012, 2011 the Group's and as at 31 December 2012, 2011 and 1 January 2011 the Company's, investment property was comprised of flats located in Palanga.

The expenses related to investment property comprising depreciation charge are included under the general and administrative expenses caption in the statement of comprehensive income.

The Group and the Company has re-estimated useful life of the investment property and starting from 1 January 2012 prolonged the depreciation period up to 17 years in order to reflect better the actual useful life. If the Group and the Company had applied the previously used depreciation rate, the net book value of investment property would be LTL 134 thousand lower and depreciation expenses higher as at 31 December 2012.

The management estimated the fair value of investment property using comparative information provided by the joint venture UAB Alproka on the market price per square meter of similar premises sold by this company to third parties in similar locations. The fair values estimated as at 31 December 2012 and 2011 are LTL 1,000 thousand, LTL 1,200 thousand respectively and as at 1 January 2011 are LTL 1,100 thousand.

7 Interest in a joint venture

As at 31 December 2012, 2011, and 1 January 2011 the Company had a 49.99% interest in UAB Alproka, a jointly controlled entity, which is engaged in the development of real estate projects (also see Note 1).

UAB Alproka is a private entity that is not listed on any public exchange. The following table illustrates summarized financial information of the Group's investment into UAB Alproka, which is accounted for using the equity method:

	As at 31 December 2012	As at 31 December 2011
Share of the joint venture's statement of financial position		
Current assets	1,731	2,847
Non-current assets	42	37
Current liabilities	(66)	(254)
Non-current liabilities	-	-
Equity	1,707	2,630
Share of the joint venture's revenue and profit		
Revenue	997	2,021
Profit (loss)	(173)	286
Carrying amount of the investment	1,707	2,630

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8 Other non-current financial assets

	Group		Company		
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011	As at 1 January 2011
Non-current deposit	3,453	3,453	-	-	-
Non-current receivables	-	15	-	15	-
Available-for-sale investments	102	105	102	105	150
	<u>3,555</u>	<u>3,573</u>	<u>102</u>	<u>120</u>	<u>150</u>

Other non-current assets of the Group comprise a 4 % annual interest deposit in Swedbank AB till 2016, which is mandatory guarantee under the lease agreement, which is disclosed under Note 15.

9 Inventories and prepayments

The Group's and the Company's inventories and prepayments amount mainly consist of prepayments to the suppliers for electricity according to the existing electricity purchase agreements. Decrease in the Group's and the Company's prepayments comparing to 2011 was due to natural course of business.

10 Trade receivables

As at 31 December 2012 and 2011 the Group's and the Company's trade receivables consisted of receivables for supplied electricity.

	Group		Company		
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011	As at 1 January 2011
Trade receivables, gross	60,084	45,086	57,315	40,863	45,672
Less: allowance for doubtful trade receivables	-	-	-	-	-
	<u>60,084</u>	<u>45,086</u>	<u>57,315</u>	<u>40,863</u>	<u>45,672</u>

Increase in trade receivables in 2012 is mainly due to higher sales in December comparing to prior year.

The management considers that the Group as at 31 December 2012, 2011 and the Company as at 31 December 2012, 2011 and 1 January 2011 did not have doubtful receivables.

There were no past due trade receivables as at 31 December 2012, 2011 and 1 January 2011 in the Group and in the Company.

Trade receivables are non-interest bearing and are generally collectible on 2-30 days terms.

11 Other receivables

As at 31 December 2012 the other receivables of the Group mainly consisted of accrued income amounting to LTL 993 thousand.

As at 1 January 2011 the other receivables of the Company mainly consisted of the loan and accrued interest receivable according to the agreement with one of the Company's shareholders RAO Nordic Oy (Note 28).

There were no past due other receivables of the Group as at 31 December 2012, 2011 and of the Company as at 31 December 2012, 2011 and 1 January 2011.

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12 Cash and cash equivalents

	Group		Company		
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011	As at 1 January 2011
Cash at bank	11,218	33,885	4,181	31,341	81,932
Cash in transit	-	-	1,164	-	-
	<u>11,218</u>	<u>33,885</u>	<u>5,345</u>	<u>31,341</u>	<u>81,932</u>

As at 31 Dec 2012 LTL 77 thousand of cash was pledged to the bank according to loan agreement (Note 14).

13 Reserves

Legal reserve

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5% of net profit based are compulsory until the reserve reaches 10% of the share capital.

As at 31 December 2011 and 1 January 2011 the Company's legal reserve was fully formed. As at 31 December 2012 the Company's legal reserve was not fully formed due to increase in share capital which occurred in 2012 (Note 1). In order to comply with legal requirements the Company has to transfer LTL 1,900 thousand from its profit for the year 2012 to the legal reserve.

Cash flow hedge reserve

This reserve represents the fair value of the effective part of the derivative financial instruments (interest rate swaps), used by the Group to secure the cash flows from interest rate risk, at the reporting date. The reserve is accounted for according to the requirements of IAS 39 (Note 16).

14 Borrowings

As at 31 December 2012 the Group's financial debts to credit institutions consisted of:

	As at 31 December 2012	As at 31 December 2011
Non-current borrowings	43,121	43,121
Current portion of non-current borrowings	-	82
	<u>43,121</u>	<u>49,053</u>

The Group company UAB IRL Wind entered into a credit agreement with Swedbank AB with the interest rate of 6 months EURIBOR + 2.95 %, according to which 100% of all cash inflows into UAB IRL Wind bank accounts, 100% of UAB IRL Wind shares and 100 % of Vydmantai wind park UAB shares are pledged. The loan is denominated in EUR and the final repayment date is 13 July 2013; however, the agreement contains a binding requirement to merge UAB IRL Wind and Vydmantai wind park UAB until the same date, and upon the merger, the amended repayment date is 31 December 2020 (the same maturity amendment is applicable to the finance lease obligations described below). As at the date of these financial statement the Group management expects to make the merger in the near future.

Interest rate applicable as at 31 December 2012 was 4.12% (4.77% as at 31 December 2011).

15 Financial lease

The assets leased by the Group under financial lease contracts consist of wind power plants, transformation equipment and other assets and equipment with the net book value of LTL 80,902 thousand as at 31 December 2012 (LTL 84,730 thousand as at 31 December 2011). The term of financial lease is 5 years. All amounts of finance lease payables as at the year-end amounted to LTL 51,301 thousand. As at 31 December 2012 the interest rate on the finance lease obligations is fixed and equals 4.8%.

Repayment of lease obligations is subject to further restructuring and repayment date extension as described above in Note 14.

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15 Financial lease (cont'd)

Furthermore, the Group leases land under financial lease contracts with the net book value of LTL 2,829 thousand as at 31 December 2012 (LTL 2,657 thousand as at 31 December 2011). The contractual lease terms are diverse, but for the financial reporting purpose, the judgmental period of 20 years from the inception date (representing usage of wind farm) was used by the management. The interest rate applied is 4.8%.

Future minimal lease payments under the above mentioned financial lease contracts as at 31 December 2012 and 2011 are as follows:

	As at 31 December 2012	As at 31 December 2011
Within one year	10,546	11,280
From one to five years	45,581	57,836
After five years	2,169	2,651
Total financial lease obligations	<u>58,296</u>	<u>71,767</u>
Interest	(6,995)	(10,668)
Present value of financial lease obligations	<u>51,301</u>	<u>61,099</u>
Financial lease obligations are accounted for as:		
- current	8,423	8,600
- non-current	42,878	52,499
Financial lease obligations are denominated in the following currencies:		
- LTL	2,231	2,657
- EUR	49,070	58,442

16 Derivative financial instruments

	As at 31 December 2012	As at 31 December 2011
Derivative financial instruments (non-current part)	1,647	-
Derivative financial instruments (current part)	880	-
Total derivative financial instruments	<u>2,527</u>	<u>-</u>

As at 31 December 2012, the Group's company (IRL Wind UAB) had an interest rate swap agreement for purpose of future cash flow hedge. On 29 June 2012 the Group has concluded interest rate swap agreement for the period from 17 July 2012 to 17 October 2020. The Group's company pays a fixed interest rate at 1.65 % and receives a floating interest rate at 6-month EURIBOR on a notional amount set in the agreement. The notional amount of the transaction at the inception moment was EUR 12,500 thousand (the equivalent of LTL 43,160 thousand) and is amortised over the period of validity of the derivative. The interest rate swap is being used to hedge the exposure to changes in the market based rates and to secure the cash flows for the loan (Note 14).

The change in fair value of the effective part of interest rate swap is recognised in other comprehensive income and the change in fair value of the non-effective part of interest rate swap is recognised directly in finance income (costs) in the statement of comprehensive income.

The fair values of interest rate swap contract designated to hedge interest rate risk are presented below:

	As at 31 December 2012	
	Assets	Liabilities
Interest rate swap contract		
Fair value	-	2,527

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16 Derivative financial instruments (cont'd)

The following table summarizes amounts recognised in other comprehensive income during the period and in the finance costs in the statement of comprehensive income:

	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>
Recognised:		
(Loss) on interest rate swap contract	(2,527)	-
Recognised in the finance costs in the statement of comprehensive income:		
(Loss) on interest rate swap contract (non effective part)	(505)	-
Accrued interest expenses	(80)	-
Recognised in other comprehensive income:		
(Loss) on interest rate swap contract (effective part)	(1,942)	-
Income tax effect	291	-

17 Trade payables

	<u>Group</u>		<u>Company</u>		
	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>	<u>As at 1 January 2011</u>
Payables to electricity suppliers	34,761	31,225	34,761	31,225	70,275
Payables to other suppliers	4,403	572	4,304	295	228
	<u>39,164</u>	<u>31,797</u>	<u>39,065</u>	<u>31,520</u>	<u>70,503</u>

Trade payables are non-interest bearing and are normally settled on 20-day terms.

18 Other current liabilities

	<u>Group</u>		<u>Company</u>		
	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>	<u>As at 1 January 2011</u>
VAT payable	6,468	10,061	6,011	9,338	16,603
Employment related liabilities	561	287	239	268	405
Other current liabilities	132	132	68	29	67
	<u>7,161</u>	<u>10,480</u>	<u>6,318</u>	<u>9,635</u>	<u>17,075</u>

19 Sales

	<u>Group</u>		<u>Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenue from sales of electricity (Note 3)	878,373	908,117	877,301	907,603
Revenue from produced electricity sales	18,865	10,963	-	-
Other sales revenue	197	-	-	-
	<u>897,435</u>	<u>919,080</u>	<u>877,301</u>	<u>907,603</u>

Slight decrease in sales revenue comparing to 2011 is due to technical maintenance works of power grids, which decreased throughput, and due to decreased electricity prices in Nordpool spot power exchange, which led to decreased demand of electricity sold by the Group.

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20 Cost of sales

	Group		Company	
	2012	2011	2012	2011
Cost of purchase of electricity*	780,423	809,075	780,304	809,074
Transmission network service cost	14,138	14,526	14,138	14,525
Depreciation on wind farm	3,913	2,663	-	-
Other expenses**	2,264	851	-	-
	<u>800,738</u>	<u>827,115</u>	<u>794,442</u>	<u>823,599</u>

* Cost of purchased electricity also includes the penalties paid during the year and accrued as at the balance sheet date for not acquired agreed quantity of electricity.

** Other expenses mainly comprise maintenance of wind farms.

21 General and administrative expenses

	Group		Company	
	2012	2011	2012	2011
Wages, salaries and social security	6,517	4,345	5,864	4,061
Depreciation and amortization	4,871	2,230	396	352
Support (charity)	3,890	4,066	3,888	4,046
Consulting services expenses a)	2,818	1,169	2,659	1,169
Electricity selling expenses	1,267	770	1,155	770
Transport expenses	979	679	863	634
Business trips	777	518	772	517
Professional services expenses b)	626	537	583	430
Bank services c)	252	191	236	179
Representation expenses	211	260	209	260
Tax expenses	193	174	116	124
Repair and maintenance	192	148	150	131
Rent	161	243	94	190
Trainings and seminars	119	84	118	84
Goodwill impairment loss (Note 4)	-	3,000	-	-
Other general and administrative expenses, net	695	287	568	241
	<u>23,568</u>	<u>18,701</u>	<u>17,671</u>	<u>13,188</u>

a) Expenses of consulting services include expenses of consultations on matters of public relations, market search and investments in companies.

b) Expenses of professional services comprise expenses of legal, accounting and audit services.

c) Bank services expenses include costs of currency exchange. The Company's sales transactions with foreign countries are denominated in EUR and with Lithuania – in LTL.

22 Finance income and (expenses), net

In 2012 and 2011 the Group's finance expenses mainly comprise interest expenses – LTL 4,597 thousand and LTL 2,307 thousand respectively.

In 2012 and 2011 the Company's finance income mainly comprise dividend income – LTL 768 thousand and LTL 2,999 thousand respectively (Note 28)

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23 Income tax

	Group		Company	
	2012	2011	2012	2011
Components of income tax expenses				
Current year income tax expenses	9,920	10,937	9,153	10,202
Deferred income tax expenses	91	(537)	-	-
Income tax expenses charged to statement of comprehensive income	<u>10,011</u>	<u>10,400</u>	<u>9,153</u>	<u>10,202</u>

In 2012 deferred tax gain of LTL 291 thousand related to cash flow hedges was accounted under other comprehensive income caption in the statement of comprehensive income.

As at 31 December 2012 and 2011 the deferred income tax asset and liability was accounted for at 15 % and consisted of:

Group

	As at 31	As at 31
	December 2012	December 2011
Deferred income tax asset		
Cash flow hedge	291	-
Less: valuation allowance	-	-
Deferred income tax asset, net of valuation allowance	<u>291</u>	<u>-</u>
Deferred income tax liability		
Equity method	(256)	(395)
Intangible assets a)	(5,014)	(5,689)
Depreciation differences	(2,861)	(1,956)
Deferred income tax liability	<u>(8,131)</u>	<u>(8,040)</u>
Deferred income tax, net	<u>(7,840)</u>	<u>(8,040)</u>

Presented in the statement of financial position as follows:

Deferred income tax asset	291	-
Deferred income tax liability	(8,131)	(8,040)

a) Due to intangible assets (related to Vydmantai wind park UAB) identified during the acquisition, a deferred income tax liability amounting to LTL 5,970 thousand was recognized. The decrease in deferred income tax liability in 2012 and 2011 represents the amortisation of the related intangible assets during 2012 and 2011.

As at 31 December 2012 and 2011 and 1 January 2011 the Company did not have deferred income tax.

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23 Income tax (cont'd)

The changes of temporary differences before and after tax effect in the Group were as follows:

Group	Balance as at 31 December 2011	Recognised in other comprehensive income	Recognised in statement of comprehensive income	Balance as at 31 December 2012
Equity method	(2,630)	-	923	(1,707)
Intangible assets	(37,927)	-	4,497	(33,430)
Depreciation differences	(13,047)	-	(6,026)	(19,073)
Cash flow hedge	-	1,942	-	1,942
Total temporary differences	(53,604)	1,942	(606)	(52,268)
Deferred income tax, net	(8,040)	291	(91)	(7,840)

Group	Balance as at 31 December 2010	Increase in assets as a result of acquired companies in 2011	Recognised in statement of comprehensive income	Balance as at 31 December 2011
Equity method	(5,343)	-	2,713	(2,630)
Intangible assets	-	(39,800)	1,873	(37,927)
Depreciation differences	-	(12,043)	(1,004)	(13,047)
Total temporary differences	(5,343)	(51,843)	3,582	(53,604)
Deferred income tax liability	(801)	(7,776)	537	(8,040)

The reported amount of income tax expenses attributable to the year can be reconciled to the amount of income tax expenses that would result from applying statutory income tax rate to pre-tax income as follows:

	Group		Company	
	2012	2011	2012	2011
Profit before tax	68,125	71,600	66,078	74,225
Income tax expenses computed at 15% in 2012 and 2011	10,219	10,740	9,912	11,134
Permanent differences	(208)	(340)	(759)	(932)
Income tax expenses charged to statement of comprehensive income	10,011	10,400	9,153	10,202

24 Basic and diluted earnings per share (LTL)

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year. The Group has no diluting instruments; therefore, basic and diluted earnings per share are equal. Calculation of basic and diluted earnings per share is presented below:

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24 Basic and diluted earnings per share (LTL) (cont'd)

Group	2012	2011
Net profit attributable to the shareholders	58,114,000	61,200,000
Number of shares , opening balance*	1,000,000	1,000,000
Number of shares , closing balance*	20,000,000	1,000,000
Weighted average number of shares**	4,643,836	1,000,000
Basic and diluted earnings per share (LTL)	12.51	61.20

* The number of shares on 31 January 2011 was adjusted for the information to be comparable due to change in par value of ordinary shares in 2012.

** The weighted average number of shares takes into account increase in share capital in 2012.

25 Dividends per share (LTL)

Company

	2012	2011
Approved dividends (LTL)*	64,023,000	60,795,000
Number of shares (units)**	1,000,000	1,000,000
Approved dividends per share (LTL)	64.02	60.80

* The year when the dividends are approved.

** At the date when dividends are approved. The number of shares on 31 January 2011 was adjusted in order for information to be comparable due to change in par value of ordinary shares in 2012.

26 Financial assets and liabilities and risk management

Credit risk

The Group and the Company has a fairly significant concentration of trading counterparties. Trade receivables from the main three customers of the Group and the Company amounted from approximately 80% to 100% of the total Group's and Company's trade receivables as at 31 December 2012 and 2011 respectively. The Group's and the Company's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history, which mainly are the state owned entities, and the majority of transactions is carried out through the market intermediary - electricity exchange Baltpool/Nordpool spot.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Therefore, the Group's and the Company's management considers that its maximum exposure is reflected by the amount of trade receivables less allowance for doubtful accounts, recognised at the date of the statement of financial position, if any.

Interest rate risk

As at 31 December 2012 and 2011 the Group had borrowings which were subject to variable rates related to EURIBOR and created interest rate risk (Note 14). As at 31 December 2011 the Group did not have any financial instruments used for the management of interest rate risk.

The following table demonstrates the sensitivity of the Group's 2011 profit before tax (through the impact on floating rate borrowings) to a reasonably possible change in interest rates, with all other variables held constant. There is no impact on the Group's equity, other than that on current year profit.

2011	Increase/decrease in basis points	Effect on the profit before the income tax
EUR	+50	(216)
EUR	-50	216

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26 Financial assets and liabilities and risk management (cont'd)

As at 31 December 2012 the Group manages its interest rate risk by having entered into interest rate swap contract, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount (Note 16). Since 17 July 2012, the Group's loan turned to be with fixed interest (hedged by interest rate swap), therefore the Group does not face interest rate risk.

As at 31 December 2012 and 2011 the Group had material financial lease obligations with fixed interest rates; therefore, they did not create interest rate risk.

Liquidity risk

The Group's and Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as at 31 December 2012 and 2011 were 1.32 and 1.49 respectively. The Company's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as at 31 December 2012, 2011 and 1 January 2011 were 1.43, 1.68, 1.62 respectively.

The tables below summarise the maturity profile of the Group's financial liabilities as at 31 December 2012 and 2011, based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings	-	444	1,332	7,106	48,432	57,314
Derivative financial instruments (net)	-	180	622	1,847	(192)	2,457
Financial lease obligations	-	2,766	7,780	45,581	2,169	58,296
Trade payables	-	39,164	-	-	-	39,164
Other current liabilities	-	132	-	-	-	132
Balance as at 31 December 2012	-	42,686	9,734	54,534	50,409	157,363

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings	-	596	1,543	44,320	-	46,459
Financial lease obligations	-	2,703	8,577	57,836	2,651	71,767
Trade payables	-	31,797	-	-	-	31,797
Other current liabilities	-	132	-	-	-	132
Balance as at 31 December 2011	-	35,228	10,120	102,156	2,651	150,155

The tables below summarise the maturity profile of the Company's financial liabilities as at 31 December 2012, 2011 and 1 January 2011 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade payables	-	39,065	-	-	-	39,065
Other current liabilities	-	68	-	-	-	68
Balance as at 31 December 2012	-	39,133	-	-	-	39,133

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26 Financial assets and liabilities and risk management (cont'd)

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade payables	-	31,520	-	-	-	31,520
Other current liabilities	-	29	-	-	-	29
Balance as at 31 December 2011	-	31,549	-	-	-	31,549

Company	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade payables	-	70,503	-	-	-	70,503
Other current liabilities	-	67	-	-	-	67
Balance as at 1 January 2011	-	70,570	-	-	-	70,570

Foreign exchange risk

Import and export activities expose the Group and the Company to foreign exchange risk. The Group and the Company is not using financial instruments intended to control the risk of foreign exchange except for focusing on trade in the euro to which the litas is pegged; therefore, the Group and the Company is not exposed to significant foreign exchange risk.

Fair value of financial instruments

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

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction, other than in forced or liquidation sale. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- The carrying amount of current trade and other accounts receivable, current accounts payable and current borrowings approximates fair value;
- The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

The fair values of the Group's and the Company's financial assets and financial liabilities approximate their carrying values.

27 Capital management

The Group's and Company's capital consists of share capital in the amount of LTL 20 million and retained earnings. The Company manages its business in such a way which allows avoiding significant increases in working capital requirements. This is achieved primarily through the thorough management of payments dates for electricity purchased from suppliers and sold to the clients. The Company aims to maintain the longest possible gap between the dates when it receives the payment for the electricity sold and is obliged to pay for the electricity purchased. Every year the Company evaluates the level of its working capital, which is required for operating sustainably (for the sustainable operations throughout 2013 the Company requires LTL~13 mln. of working capital which is well below its statutory capital). In cases when the Company forecasts possible increase in the level of required working capital it always has a possibility to take a credit line from the bank (this option has been discussed with the bank and it is possible to open a required credit line within the term of 1 month). All the excessive cash is deposited in the bank accounts and gain overnight interests pre-agreed with bank.

In addition, companies registered in Lithuania are obliged to upkeep its equity at not less than 50 % of its share capital, as imposed by the Law on Companies of the Republic of Lithuania. The Company was in compliance with this requirement. There were no other externally imposed capital requirements on the Company.

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28 Related party transactions

Parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

JSC INTER RAO UES (ultimate parent);
RAO Nordic Oy (one of the shareholders);
UAB Scaent Baltic (one of the shareholders);
SIA INTER RAO Latvia (subsidiary);
OU INTER RAO Eesti (subsidiary);
UAB IRL Wind (subsidiary);
Sp z o.o. IRL Polska (subsidiary);
UAB Vydmantai wind park (indirectly controlled subsidiary);
UAB Alproka (joint venture);
Other related parties include:
UAB Scaent Baltic Group companies (the same shareholder);
Management.

2012

Group		Purchases	Sales	Declared dividends	Receivables	Payables
JSC INTER RAO UES	a)	674,117	-	-	-	34,013
Oy RAO Nordic		-	-	32,652	-	-
UAB Scaent Baltic	c)	232	947	31,371	947	10
UAB Alproka		-	-	(768)	-	-
Other related parties	d)	543	56	-	-	176
		674,892	1,003	63,255	947	34,199

2011

Group		Purchases	Sales	Declared dividends	Prepayments	Payables
JSC INTER RAO UES	a)	769,650	-	-	6,485	25,439
Oy RAO Nordic		-	153	31,005	-	-
UAB Scaent Baltic	c)	353	-	29,790	-	43
UAB Alproka		-	-	(2,999)	-	-
Other related parties	d)	77	-	-	-	17
		770,080	153	57,796	6,485	25,499

2012

Company		Purchases	Sales	Declared dividends	Receivables	Payables
JSC INTER RAO UES	a)	674,117	-	-	-	34,013
Oy RAO Nordic		-	-	32,652	-	-
UAB Scaent Baltic	c)	208	947	31,371	947	10
UAB Alproka		-	-	(768)	-	-
SIA INTER RAO Latvia		-	5,239	-	570	-
UAB IRL Wind		-	19	-	5	-
UAB Vydmantai wind park		-	21	-	3	-
Other related parties	d)	543	56	-	-	176
		674,868	6,282	63,255	1,525	34,199

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28 Related party transactions (cont'd)

2011		Purchases	Sales	Declared dividends	Loans granted and prepayments	Payables
Company						
JSC INTER RAO UES	a)	769,650	-	-	6,485	25,439
Oy RAO Nordic		-	153	31,005	-	-
UAB Scaent Baltic	c)	353	-	29,790	-	43
SIA INTER RAO Latvia		-	3,503	-	226	-
UAB Alproka		-	-	(2,999)	-	-
Other related parties	d)	78	-	-	-	17
		770,081	3,656	57,796	6,711	25,499

1 January 2011		Receivables, including loans granted	Payables
Company			
JSC INTER RAO UES	a)	7,844	67,977
RAO Nordic Oy	b)	14,049	-
UAB Scaent Baltic		-	41
UAB Alproka		-	-
Other related parties		-	72
		21,893	68,090

- a) The Group and the Company performs electricity trading transactions with JSC INTER RAO UES.
- b) RAO Nordic Oy liability to the Company is comprised of the loan granted and accrued interest receivable accounted for in other receivables caption, the maturity date of which is 22 June 2011. The loan currency – EUR, interest rate - 12 month EURIBOR + 2%.
- c) The Group and the Company purchased rent of premises and accounting services from UAB Scaent Baltic.
- d) In 2012 and 2011 the Group and the Company purchased advertising services from other related parties.

Payables and receivables between related parties are non-interest bearing. Receivables and payables payment terms between the related parties are up to 15 days, except for the dividends and loans, which are repaid in accordance to the legal or contractual requirements, respectively.

Outstanding balances at the year-end are unsecured and settlement occurs in cash, unless agreed otherwise. There have been no guarantees provided or received for any related party receivable or payable and no allowance has been made for the receivables from related parties by the Group and by the Company.

Management remuneration and other benefits

The Group's management includes each of the Group companies managing director, deputy director and board members. Amounts of salaries and bonuses calculated during the years 2012 and 2011 for the management of the Group were as follows: LTL 2,640 thousand and LTL 1,848 thousand, respectively.

The Company's management includes managing director, deputy director and board members. Amounts of salaries and bonuses calculated during the years 2012 and 2011 for the management of the Company were as follows: LTL 2,350 thousand, and LTL 1,664 thousand, respectively.

On 1 December 2005, under a credit agreement a loan of EUR 29 thousand was granted to one of the members of the Group's management. As at 31 December 2012, the balance of the loan amounted to EUR 4 thousand. The maturity date is 5 December 2015. The interest rate of the loan is 6 month EURIBOR + 0.1%. There are no collaterals attached to the related party loans.

No other guarantees were issued to the Group's and Company's management and no other amounts were paid or calculated and no assets were disposed of.

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29 Non-monetary transactions

Group

In April 2011 the general shareholders meeting decided to pay LTL 60,795 thousand dividends to the shareholders. LTL 14,202 thousand dividends payable was set-off against Oy RAO Nordic loans and accrued interest.

During 2012 and 2011 the following amounts of income tax were set off against other taxes: LTL 7,882 thousand and LTL 8,026 thousand respectively.

Company

In April 2011 the general shareholders meeting decided to pay LTL 60,795 thousand dividends to the shareholders, LTL 14,202 thousand dividends payable was set-off against Oy RAO Nordic loans and accrued interest.

During 2011 income tax was set-off against other taxes for LTL 7,882 thousand.

30 First time adoption of IFRS

As described in Note 2.1, the Company made a transition to IFRS in 2012, with 1 January 2011 as the transition date. The effect of transition from the previously applied Business Accounting Standards (BAS) to IFRS on the Company's financial statement of comprehensive income is described below. Transition to IFRS had no material effect on the statements of cash flows and financial position of the Company.

The only adjustment made at the transition from local GAAP (BAS) to IFRS was net presentation of revenue related to the sale and purchase of imported electricity from the power exchange, impact on the statement of comprehensive income for the year 2011 is presented below:

	2011 (Local GAAP)	Net revenue presentation	2011 (IFRS)
Sales	1,231,618	(324,015)	907,603
Cost of sales	(1,147,614)	324,015	(823,599)
Gross profit	84,004	-	84,004
General and administrative expenses	(13,190)	-	(13,190)
Other operating income	2	-	2
Profit from operations	70,816	-	70,816
Finance income	3,435	-	3,435
Finance expenses	(26)	-	(26)
Profit before tax	74,225	-	74,225
Income tax	(10,202)	-	(10,202)
Net profit	64,023	-	64,023
Other comprehensive income	-	-	-
Total comprehensive income for the year, net of tax	64,023	-	64,023

In accordance with the first-time adoption of IFRS in the Group financial statements for 2011, no exemptions foreseen in IFRS 1 First-Time adoption of International Financial Reporting Standards were applied.

Management assumptions and estimates reflected in the previous GAAP financial statements as at the transition to IFRS date and all the other reporting dates for which previous GAAP financial information was published were the same as reflected in the financial statements previously prepared according to local GAAP (BAS).

31 Subsequent events

On 31 January 2013 the Company received the unlimited-term permission No. LE-0020 for electricity export to Russia and Belarus and the unlimited-term permission No. LI-0030 for electricity import Russia and Belarus to Lithuania.

In 2013 the Company started more active electricity trading with retail customers.

Consolidated Annual Report For the Year Ended 31 December 2012

I. General Information

Reporting period

Year ended 31 December 2012

Company and its contact details

Company name	AB INTER RAO Lietuva (hereinafter – IRL or „the Company“)
Company code	126119913
Legal form	Public company (joint-stock company)
Date of registration	21 December 2002
Name of register of Legal Entities	State Enterprise Centre of Registers
Registered office	A.Tumėno g. 4, block B, LT-01109 Vilnius
Telephone number	+370 5 242 11 21
Fax number	+370 5 242 11 22
E-mail	info@interrao.lt
Internet address	www.interrao.lt

The Group's main activity is electricity trading, therefore most of its subsidiaries hold the license of independent supplier of electricity and, as such, may engage in various forms of electricity trading. Moreover, the Group is also present in electricity generation operations, as it owns a wind farm in Western Lithuania.

The Group is engaged in various forms of electricity trading: the purchase and sale of electricity under bilateral contracts with other electricity suppliers, as well as on the power exchange; supply of electricity to end-users; provision of balancing services for end-users and other wholesalers of electricity; sale and purchase of regulating and balancing electricity for the transmission system operators; cross-border electricity trading.

The Group has permission to import and export electricity to and from Lithuania, it is engaged in the import of electricity from Russia and, to a lesser extent, from Belarus, as well as in export to these countries. The Group is also active in cross-border electricity trading between Lithuania and other EU Member States, namely Latvia and Estonia.

The Group sells all of the electricity it cross-border delivers to the Lithuanian internal market on the power exchange since, in accordance with respective regulations, all electricity cross-border delivered to the Lithuanian internal electricity market, including those volumes imported from the third countries and those delivered from the EU Member States, has to be sold on the power exchange. Then the Group buys the electricity on the power exchange in a volume corresponding to its contractual obligations with clients. Sale and purchase orders are submitted for the same prices and trades are executed at the market price. Some portion of electricity is also sold through Nord Pool Spot AS in Lithuania and Estonia to other market participants. Trades on the power exchange are executed at the market price.

The price of electricity sold under bilateral contacts is the market price, adjusted for variances depending on the electricity trading or consumption pattern of the customer and contractual arrangements (e.g., fixed on annual or monthly basis or agreed in daily delivery schedules).

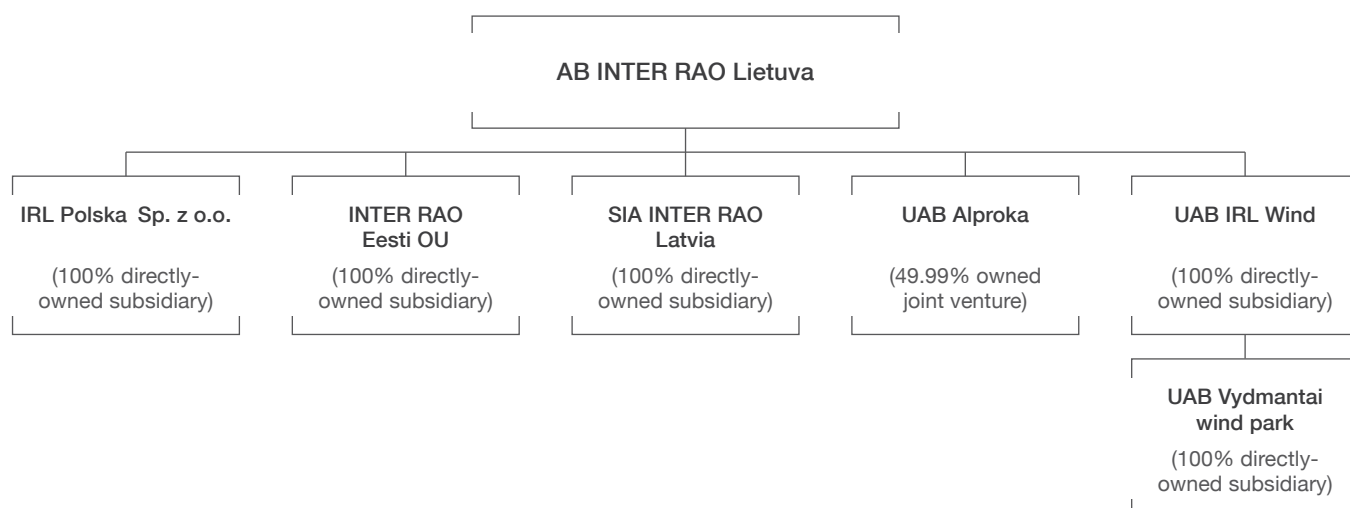
Apart from importing electricity, the Group also purchases the electricity from other wholesalers of electricity in Lithuania and Latvia under bilateral contracts based on various pricing arrangements, as well as on Nord Pool Spot AS in Lithuania and Estonia.

The Group structure

As on 31 December 2012, Inter RAO Lietuva AB consisted of the Company and the below described directly and indirectly controlled subsidiaries and joint venture (hereinafter - "the Group"):

Company	Company code	Directly and indirectly held effective attributable interest	Equity as at 31 December 2012	Registration address	Activity
OU INTER RAO Eesti subsidiary	11879805	100.00 %	18	Vaikare-Karja 3/Sauna 2 Tallinn, Estonia	Expected trade of electricity
SIA INTER RAO Latvia subsidiary	40103268639	100.00 %	295	Elizabetes iela 15-1 Riga, Latvia	Trade of electricity
Sp. z.o.o. IRL Polska joint venture	0000436992	100.00 %	1,684	W.Kosciuszkowskie 43-2 Warsaw, Poland	Expected trade of electricity
UAB Alproka	125281684	49.99 %	3,415	Lyovo Str. 25 Vilnius, Lithuania	Operations with real estate
UAB IRL Wind subsidiary	302615372	100.00 %	32,406	A.Tumėno Str. 4 Vilnius, Lithuania	Holding company
Vydmantai Wind Park, UAB indirectly owned subsidiary managed through UAB IRL Wind	302666616	100.00 %	37,989	A.Tumėno Str. 4 Vilnius, Lithuania	Generation of electricity

The following chart sets out the Group' subsidiaries and interest in those subsidiaries, as well as the structure of the Group:



On 17 September 2012 the Company incorporated a 100 per cent owned entity Sp. z o.o. IRL Polska in Poland with a registered share capital of LTL 1,684 thousand with a purpose of electricity trading. In 2012 the subsidiary did not perform any active operations.

In April 2011 the Company established a 100 per cent owned entity UAB IRL Wind. In July 2011 UAB IRL Wind acquired a wind electricity generation business from UAB Vėjų Spektras. Vydmantai wind park, UAB was established in a process of reorganization to take over the electricity generation business acquired from UAB Vėjų spektras with all assets, rights and obligations. Vydmantai wind park, UAB represents an independent economic unit capable of carrying out the activities and performing functions on its own.

The Company directly holds 49.99 per cent of the share capital of UAB Alproka, which was acquired in 2006. The investment in UAB Alproka was a one-time investment and the Company does not plan to further participate in the real estate development industry after the project conducted by UAB Alproka is closed. UAB Alproka is engaged in real estate development in the Lithuanian seaside resort, Palanga. UAB Alproka has already completed the development of the complex and has begun sales of the apartments. As of 31 December 2012, out of 447 apartments, 13 apartments are still to be sold. When the sale of all apartments is completed, shares of UAB Alproka owned by the Company will be sold to AB Panevėžio keliai or alternatively, UAB Alproka will be liquidated.

The Company has no branches and representative offices.

Main activities of INTER RAO Lietuva Group

Inter RAO Lietuva Group (hereinafter – “the Group”) is an independent supplier of electricity and, as such, may engage in various forms of electricity trading. Moreover, the Group is also present in electricity generation operations, as it owns a wind farm in Western Lithuania.

The Group is engaged in various forms of electricity trading: the purchase and sale of electricity under bilateral contracts with wholesalers of electricity, as well as on the power exchange; supply of electricity to end-users; provision of balancing services for end-users and other wholesalers of electricity; sale and purchase of regulating and balancing electricity for the purposes of systemic services provided by the transmission system operators; cross-border electricity trading.

The Group has permission to import and export electricity to and from Lithuania, it is engaged in the import of electricity from Russia and, to a lesser extent, from Belarus, as well as in export to these countries. The Group is also active in cross-border electricity trading between Lithuania and other EU Member States, namely Latvia and Estonia.

The Group sells all of the electricity it cross-border delivers to the Lithuanian internal market on the power exchange since, in accordance with respective regulations, all electricity cross-border delivered to the Lithuanian internal electricity market, including those volumes imported from the third countries and those delivered from the EU Member States, has to be sold on the power exchange. Then the Group buys the electricity on the power exchange in a volume corresponding to its contractual obligations with clients. Sale and purchase orders are submitted for the same price and trades are executed at the market price. Only then does the Group sell electricity to its wholesale customers in Lithuania and Latvia according to bilateral contracts. Some portion of electricity is also sold directly through Nord Pool Spot AS in Lithuania and Estonia to other market participants. Trades on the power exchange are executed at the market price.

The price of electricity sold under bilateral contacts is the market price, adjusted for variances depending on the electricity trading pattern of the customer and contractual arrangements (e.g., fixed on annual or monthly basis or agreed in daily delivery schedules). Alternately the Group may sell electricity to its customers based on agreed future date contracts, under which the Group undertakes to sell agreed volumes of electricity on the power exchange at agreed price and its customer undertakes to purchase on the power exchange the same volumes at the same agreed price (if market price differs, the parties agree on mutual compensation of the price margin between the market price and the agreed one).

Apart from importing electricity, the Group also purchases the electricity it trades from other wholesalers of electricity in Lithuania and Latvia under bilateral contracts based on various pricing arrangements, as well as on Nord Pool Spot AS in Lithuania and Estonia based on market price.

The Group history and development

- 2002** The Company was incorporated as UAB Energijos realizacijos centras.
- 2003** The Company received its license as independent electricity supplier with permission to export electricity. The Company signed sale-purchase agreements with INTER RAO UES and Lietuvos energija AB. The Company began electricity trading activities by exporting electricity to Russia and Belarus.
- 2004** Permission to import electricity was granted to the Company.
- 2005** The Company began importing electricity to Lithuania. RAO Nordic OY, a wholly owned subsidiary of INTER RAO UES, acquired 18 per cent of the Company's share capital from UAB VB rizikos kapitalo valdymas.
- 2006** The Company acquired a 49.99 per cent stake in UAB Alproka, a company engaged in real estate development in the Lithuanian seaside resort of Palanga.
- 2007** UAB Scaent Baltic acquired an 82 per cent stake in the Company's share capital from Scaent Holdings Cooperatie UA and Bengtsbädd Förvaltning AB.
- 2008** RAO Nordic OY increased its shareholding in the Company by acquiring a 33 per cent stake from UAB Scaent Baltic. The stake of RAO Nordic OY in the Company's share capital reaches 51 per cent, while the stake of UAB Scaent Baltic decreases to 49 per cent.
- 2009** The Company signed electricity sale-purchase agreements with the Belarusian company, Belenergo and the Latvian company, Latvenergo. Cooperation regarding the sale of electricity with the largest electricity consumer in the Baltic States, Orlen Lietuva, was established. Delivery was initiated in 2010. The Company changed its name to UAB INTER RAO Lietuva.
- 2010** The Company established two wholly-owned subsidiaries, one in Latvia (SIA INTER RAO Latvia) and the second in Estonia (INTER RAO Eesti OU). SIA INTER RAO Latvia received its license for electricity trading in Latvia.
- 2011** SIA INTER RAO Latvia begins electricity trading operations. The Company begins trading activities in the Estonian area of NordPool Spot. The Company begins operations in electricity generation from renewable energy sources by acquiring the wind park in Vydmantai. The Company signs an agreement with INTER RAO UES on potential export of electricity generated in Baltiiskaya NPP under construction in Kaliningrad Oblast.
- 2012** Decision on public offering and listing of the Company's shares on the Warsaw Stock Exchange was made. IRL POLSKA sp. z o.o. in Poland was established.

Agreements with intermediaries of public trading in securities

Since 29 October 2012 the Company and UAB FMĮ Orion Securities (code 122033915), A. Tumėno str. 4, LT-01109 Vilnius, have an agreement on accounting of the Company's securities and services related to the accounting of securities.

Data about securities traded on regulated market

The following securities of the Company are included into the Main List of Warsaw stock exchange (symbol: IRL):

Types of shares	Number of shares	Nominal value (in LTL)	Total nominal value (in LTL)	Issue Code
Ordinary registered shares	20,000,000	1	20,000,000	LT0000128621

In December 2012, the initial public offering of the Company's ordinary shares was completed on the Warsaw Stock Exchange. The total oversubscription for the Company's ordinary shares exceeded 26 per cent. Given the ordinary share offer price of PLN 24.17 the value of the offering exceeded PLN 96.7 million. The Company's ordinary shares were included into the Main list of the Warsaw Stock Exchange.

Securities of the Group's subsidiaries are not traded publicly.

II. Financial Information

Despite technical maintenance works of interconnection lines and the Group's expansion into foreign electricity markets, the Group succeeded in keeping solid financial results for the year 2012. Although sales revenue decreased by 2.4 per cent to amount to LTL 897 million, gross profit increased by 5.1 per cent and amounted to LTL 97 million.

The Group maintained and even improved profitability ratios. The Group's EBITDA increased by 3.4 per cent to LTL 81.5 million, EBITDA margin increased from 8.6 per cent in 2011 to 9.1 per cent in 2012.

During 2012 the Group substantially increased its customer base, improved relationships with the largest customers in the region, and initiated operations in Polish electricity markets.

Wind park located in Vydmantai, owned by the Group over a year generated 63,250 MWh, which was 10.4 per cent lower than in 2011. Less favorable wind conditions in Lithuania compared to 2011 led to the decline in electricity generation and sales revenues.

The consolidated financial statements of the Group have been prepared according to the International Financial Reporting Standards as adopted by the European Union.

Main activities of INTER RAO Lietuva Group

Financial figures	2012	2011	2010	2009
Sales (LTL thousand)	897,435	919,080	750,389	104,539
Gross profit (LTL thousand)	96,697	91,965	79,462	25,662
Gross profit margin (%)	10.8%	10.0%	10.6%	24.5%
Operating profit (LTL thousand)	73,129	73,264	68,531	16,355
Operating profit margin (%)	8.1%	8.0%	9.1%	15.6%
EBITDA (LTL thousand)	81,506	78,800	69,439	17,862
EBITDA profit margin (%)	9.1%	8.6%	9.3%	17.1%
Net profit (LTL thousand)	58,114	61,200	59,061	14,953
Net profit margin (%)	6.5%	6.7%	7.9%	14.3%
Number of shares (thousand)	20,000	1,000	1,000	1,000
Earnings per share (LTL)	12.51	61.20	59.06	14.95
Financial ratios	2012	2011	2010	2009
Return on capital employed (%)	48%	44%	107%	50%
Return on assets (%)	28%	27%	38%	32%
Return on shareholders' equity (%)	103%	95%	93%	44%
Gearing ratio	1.67	1.63	0.00	0.00
Net financial debt to equity	1.47	1.10	-1.29	-0.59
Equity to assets ratio	0.27	0.28	0.40	0.73
Current ratio	1.32	1.49	1.62	3.27
Rate of turnover of assets (%)	23%	25%	21%	44%

Gross profit margin – Gross profit / Sales
 Operating profit margin – Operating profit / Sales
 EBITDA profit margin – EBITDA / Sales
 Profit before taxes margin – Profit before taxes / Sales
 Net profit margin – Net profit / Sales
 Earnings per share – Net profit / Weighted average number of shares (4,643,836 for 2012)
 Return on capital employed – EBIT / (Total assets – Current liabilities)
 Return on assets – Net profit / Total assets
 Return on equity – Net profit / Total shareholders' equity
 Gearing ratio – Total financial debt / Total shareholders' equity
 Net financial debt to equity – (Financial borrowings – Cash and cash equivalents) / Total equity
 Equity to assets ratio – Total equity / Total assets
 Current ratio – Current assets / Current liabilities
 Rate of turnover of assets – Total assets / Sales

Revenue

The total consolidated INTER RAO Lietuva Group's sales for the year 2012 was LTL 897 million, a decline of 2.4 per cent over the total revenue of LTL 919 million for the year 2011.

The Group is organized into business units based on type of activities and has the two following reportable segments:

- Purchase and sales of electricity;
- Production and sales of electricity.

Revenue from sales of electricity in 2012 decreased by 3.3 per cent and amounted to LTL 878 million, compared to LTL 908 million in 2011. The slight decrease in sales revenue compared to 2011 was due to technical maintenance works of power grids, which decreased the throughput of the grid and limited the amount of imported electricity from Russia.

The table below presents data on the electricity trading activities of the Group, with a breakdown by each country for the periods indicated (S - sale, P - purchase).

For the year ended 31 December (GhW)	2012		2011		2010		2009	
	S	P	S	P	S	P	S	P
Lithuania	6,763	3,076	6,217	2,270	4,682	124	540	582
Lithuania*	3,895	208	4,089	142	4,672	114	-	65
Latvia	1,130	139	1,564	47	771	166	25	-
Estonia	374	95	213	38	-	-	-	-
Russia	-	4,780	-	5,543	3	5,113	497	410
Belarus	109	286	-	96	-	53	-	7
Total	8,377	8,377	7,994	7,994	5,456	5,456	1,062	1,064
Total*	5,508	5,508	5,866	5,866	5,446	5,446	-	-

* Excluding equivalent trades on the power exchange

Revenue from produced electricity sales over the year increased by 74 per cent and accounted for LTL 19.1 million and comprised 2.1 per cent of total sales revenue. The significant increase was due to a full year accounting of acquired wind park produced electricity sales (Wind park located in Vydmantai was acquired in 15 July 2011).

Cost of sales

Cost of purchased electricity in 2012 decreased by 3.5 per cent if compared to 2011 and amounted to LTL 780 million. Cost of purchased electricity comprised 97.5 per cent of total cost of sales. Despite the lower sales volumes in 2012, if compared to 2011, the Cost of purchased electricity decreased more than the decrease of sales of electricity (influenced by increased electricity sales of wind park), thus making positive impact on the Group's Gross profit margin.

Transmission network service cost (i.e., input fee) declined by 2.7 per cent and accounted to LTL 14 million.

Gross profit increased by 5.1 per cent and amounted to LTL 96.7 million, compared to LTL 91.9 million in 2011. Gross profit margin in 2012 increased to 10.8 per cent from 10.0 per cent in 2011. Such an increase was mainly driven by the increased amount of sales of electricity generated in the wind farm belonging to the Group.

Operating expenses

In 2012 total operating expenses of the Group was 26 per cent higher than total operating expenses a year ago and amounted to LTL 23.6 million. The increase in operating expenses was mainly due to the expansion of the Group's operations in all three Baltic countries, consequent increase in the number of employees and the organization of the initial public offering of the Company's ordinary shares.

The employment related expenses (wages, salaries and social security) over the year increased by 50.0 per cent and amounted to LTL 6,52 million. This was caused by the expansion of Group activities, increase of the responsibilities of employees and increase in total number of employees (i.e. headcount) by 13 to total of 37. Following the liberalization of electricity market and the Group's strategy to enter into end-users market, the Group increased its sales force from 4 to 11 persons.

Support (charity) related expenses in 2012 decreased by 4.3 per cent and amounted to LTL 3.9 million. The Group constantly supports various organizations and initiatives. Support, provided by the Group, is concentrated on three areas: sports, communities, education and culture.

Consulting services expenses over the year increased by 141 per cent. The increase is related to the organization of the initial public offering of the Company's shares in Warsaw Stock exchange in December 2012.

Electricity selling expenses in 2012 increased by 64.5 per cent and accounted for LTL 1.26 million. The increase in expenses was mainly due to increased trading volume through NordPool Spot AS exchange.

Earnings

Over the year, depreciation and amortization charges increased by 79.5 per cent and in 2012 amounted to 1 per cent of total revenue (0.5 a year ago). The acquisition of wind park was completed on 15 July 2011 and depreciation charges were accounted for approximately half-year period, while depreciation charges in 2012 were accounted for a full year period. Operating profit remained at the same level as a year ago, while operating profit margin was 8.1 per cent compared to 8.0 per cent a year ago.

Net financial loss, including share of result of joint venture, in 2012 was 200.7 per cent lower than a year ago and amounted to minus LTL 5.0 million. In 2012 financial expenses was primarily comprised of interest expenses. The decrease in net financial income was facilitated by the acquisition of wind park in 2011 and associated financial borrowing for the park.

As a result, profit before tax in 2012 was down by 4.9 per cent and amounted to LTL 68.1 million (LTL 71.6 million a year ago).

Net profit for the period amounted to LTL 58.1 million, while a year ago it was LTL 61.2 million, a decrease by 5.0 per cent. The profit margin was 6.5 per cent (6.7 per cent a year ago).

Balance sheet and cash flow

During January–December 2012 total assets of the Group decreased by 7.3 per cent.

Total non-current assets decreased by 3.7 per cent and amounted to 64.3 per cent of total assets. In 2012, the Annual General Meeting of Shareholders decided to pay LTL 64,023 thousand dividends to the shareholders for the year 2011.

During the year shareholders' equity decreased by 11.8 per cent and amounted to 27.1 per cent of the total assets. On 20 July 2012, the General Shareholders Meeting adopted a resolution to increase the share capital from LTL 1,000,000 to LTL 20,000,000, and to divide the share capital into 20,000,000 ordinary registered shares with a nominal value of LTL 1 each. Such an increase in share capital was made by converting 1,000 ordinary registered shares of the Company with a nominal value of LTL 1,000 into 1,000,000 ordinary registered shares with a nominal value of LTL 1 each, and by issuing 19,000,000 new ordinary registered shares using the retained earnings of the Company.

As of 31 December 2012 consolidated retained earnings of the Group amounted to LTL 38.1 million, while retained earnings of the Company amounted to LTL 37.9 million. The Group's equity attributable to equity holders of the Company amounted to LTL 56.6 million. According to the provisions of the Law of the Republic of Lithuania on Companies, dividends should be paid from retained earnings of the Company. From 1 January 2010 dividends paid to legal entities (residents and non-residents) are subject to withholding Corporate income tax of 15 per cent, unless otherwise provided for by the laws. Dividends paid to natural persons (residents and non-residents) are subject to withholding Personal income tax of 20 per cent.

At the end of December 2012 total amount of financial borrowings (financial lease and financial debts) is related to the financing of wind park and amounted to LTL 94.4 million. Cash, cash equivalents amounted to LTL 11.2 million.

Net cash flow from operating activities in 2012 was by 101.9 per cent higher than a year ago and amounted to LTL 58.3 million (LTL 28.8 million a year ago). The increase in net cash flow from operating activities was caused by lower investments into working capital compared to a year ago and changes of electricity trading volumes in December of the 2010–2012.

Investments in non-current assets in 2012 amounted to LTL 4.3 million. The majority of capital investments (LTL 3.9 million) went to the acquisition of office premises in Vilnius.

During 2012 net cash flow to investing activities amounted to LTL 2.5 million (compared to LTL 67.4 million in 2011, when wind park located in Vydmantai was acquired).

Information about related party transactions

Parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

- JSC INTER RAO UES (ultimate parent);
- RAO Nordic Oy (one of the shareholders);
- UAB Scaent Baltic (one of the shareholders);
- SIA INTER RAO Latvia (subsidiary);
- OU INTER RAO Eesti (subsidiary);
- UAB IRL Wind (subsidiary);
- Sp z o.o. IRL Polska (subsidiary);
- UAB Vydmantai wind park (indirectly controlled subsidiary);
- UAB Alproka (joint venture);
- UAB Scaent Baltic Group companies (the same shareholder).
- Management

Detailed information about related party transactions is provided in Note 28 of INTER RAO Lietuva, AB Financial Statements of the year ended 31 December 2012.

Other material information

No significant events occurred after the reporting date.

Recent events

On 31 January 2013 the Company received the unlimited-term permission No. LE-0020 for electricity export to Russia and Belarus and the unlimited-term permission No. LI-0030 for electricity import Russia and Belarus to Lithuania.

In 2013 the Company started more active electricity trading with retail customers.

Research and development activities

There were no major research and development projects undertaken during 2012.

Risk management

The main risk factors associated with the activities of the Company are as follows:

- Changes in the regulatory environment.
- Changes in the price of electricity traded.
- Increase in price of imported electricity.
- Decrease in electricity demand.
- Failure to build or delay in building interconnections between electricity grids.
- Discontinuation or unfavorable changes in renewable energy support schemes.
- Decrease in volume of electricity generated by the wind park.
- Increased competition among independent electricity suppliers.
- Changes in currency exchange rates.

As of 31 December 2012 the total amount of borrowings of the Group amounted to LTL 94.4 million.

As at 31 December 2012, the Group's company (IRL Wind UAB) had an interest rate swap agreement for purpose of future cash flow hedge. On 29 June 2012 the Group's company has concluded interest rate swap agreement for the period from 17 July 2012 to 17 October 2020. The Group's company pays a fixed interest rate at 1.65 per cent and receives a floating interest rate at 6-month EURIBOR on a notional amount set in the agreement. The notional amount of the transaction at the inception moment was EUR 12,500 thousand (the equivalent of LTL 43,160 thousand) and is amortized over the period of validity of the derivative.

The Group's and the Company's activities are exposed to the following financial risks: market risk (including foreign exchange risk and cash flow management), credit risk, interest rate risk (which is currently hedged by interest rate swap agreement) and liquidity risk. The Group's policy for treasury management focuses on the unpredictability of financial markets and their adverse effects on the electricity trading segment thus seeking to minimize potential negative effects on the financial performance of the Group.

The Company's financial risk management is carried out by the Company under policies approved by the Management Board. This unit identifies and evaluates financial risks in close co-operation with the Group's operating units. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

The Group's electricity trading is partially executed based on orders submitted by a team of traders on a daily basis in response to market conditions, upon consideration of the Group's contractual obligations and market demand. Electricity trading operations are executed using software provided by the electricity exchange (Nord Pool Spot AS) platform or platforms of clients/suppliers. In order to mitigate risks associated with electricity trading, the Group has introduced respective policies to supervise its traders' activity. Namely, each order for electricity purchase or sale is made by two employees: one employee inputs trading parameters, whereas the other (usually the commercial director) reviews and confirms them.

Apart from internal risk management procedures, trades made by the Group are checked by its counterparties, the power exchange and transmission system operators. Electricity trades made through Nord Pool Spot AS are checked by the power exchange itself for arithmetical accuracy and systematic errors, as well as for unusual activities. Furthermore, each day the Group is obliged to present to the transmission system operator its plan for deliveries of electricity for the following day. The transmission system operator checks whether the Group is able to deliver the planned volume of electricity and, if required, checks the availability of balancing services to be provided to the Group. Moreover, each day the Group is obliged to deliver to the Lithuanian transmission system operator plans for import and export of electricity from/to Russia or Belarus.

Regarding the management of credit risk, the Group is engaged in credit valuation and constant monitoring of its clients. In such activities, the Group uses an internally designed software which allows for the collection of information from clients and prospective clients, which is needed to evaluate client's credit risk.

The Company implemented a process of internal controls. The process of the Company's internal controls implies control of business processes related to provision of electricity purchase and sale, and revenue assurance (customers' settlements and accounting, development and management of services, services provision), performance of IT systems (customer care and billing, infrastructure, network information, financial accounting, salary accounting, networks' interconnection) and the process of preparation of financial reports.

Plans and forecasts

The Group is engaged in electricity trading and plans expansion into other countries as well as diversification of its operations by getting more involved into electricity sales to the end users. The Group operates a wind park located in Vydmantai and plans to further develop activities in the renewable energy sector.

III. Information About Share Capital And Shareholders

Share Capital

The share capital of the Company amounts to LTL 20,000,000 and consists of 20,000,000 ordinary registered shares with a nominal value LTL 1 each. On 20 July 2012, the General Meeting adopted a resolution to increase the share capital from LTL 1,000,000 to LTL 20,000,000, and to divide the share capital into 20,000,000 ordinary registered shares with a nominal value of LTL 1 each. Such an increase in share capital was made by converting 1,000 ordinary registered shares of the Company with a nominal value of LTL 1,000 into 1,000,000 ordinary registered shares with a nominal value of LTL 1 each, and by issuing 19,000,000 new ordinary registered shares of the Company from the retained earnings of the Company.

Ordinary registered shares of the Company (ISIN code LT0000128621) are listed on the Main List of Warsaw Stock Exchange (symbol: IRL).

Shareholders

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 2012:

Name of shareholder	Number of ordinary registered shares owned by the shareholder	Share of the share capital, %	Share of votes given by the shares owned by the right of ownership, %
RAO Nordic OY	10,200,000	51.00	51.00
UAB Scaent Baltic	5,800,000	29.00	29.00
Other shareholders	4,000,000	20.00	20.00
Total	20,000,000	100.00	100.00

As of 31 December 2012, 51 per cent of the outstanding share capital of INTER RAO Lietuva, AB is held directly by RAO Nordic OY, a company organized and existing under the laws of the Republic of Finland, registration number 1784937-7, with its registered office at Tammasaarenkatu 1, FIN-00180, Helsinki, the Republic of Finland. RAO Nordic OY is a wholly-owned subsidiary of JSC INTER RAO UES, a company incorporated under Russian law, listed on MICEX-RTS under ticker 'IRAO'. INTER RAO UES is a diversified energy holding managing assets in Russia, several countries of the CIS and the EU. Its operations comprise electric power and heat generation, international power trading and electric industry engineering.

As of 31 December 2012, 29 per cent of the outstanding share capital of the Company is held directly by UAB Scaent Baltic, a company organized and existing under the laws of the Republic of Lithuania, registration number 300661378, with its registered office at A. Tumėno 4, LT-01109, Vilnius, the Republic of Lithuania.

As of 31 December 2012, free float represents 20 per cent of the outstanding share capital.

Treasury shares

During the financial year of 2012, the Company has not purchased any treasury shares. As of 31 December 2012, the Company does not hold any treasury shares.

Acquisition of treasury shares

For an adoption of a resolution on the acquisition of its own shares, a qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting is required. Under Lithuanian law, the Company may acquire its own shares if all of the following conditions are met: (i) the acquisition of its own shares occurs within a specified period (no longer than eighteen months) after the adoption of a resolution by the General Meeting which specifies the conditions, purpose and terms for the acquisition of its own shares, including the maximum number of shares to be acquired, the manner in which these shares may be acquired and the price range within which the shares may be acquired; (ii) the total nominal value of the shares redeemed or taken as collateral does not exceed one-tenth of the share capital; and (iii) after the acquisition of its own shares, the Company's equity does not fall below the sum of the paid share capital, mandatory reserve and the reserve for acquisition of own shares; (iv) consideration of redeemed shares are paid from the reserve for acquisition of its own shares which was formed by the Company; (v) acquired shares are fully paid; (vi) acquisition of its own shares by the Company ensures equal possibilities for all shareholders to sell their held shares to the Company. Shares that were acquired infringing the above listed requirements (i)-(iv) must be sold within twelve months from the acquisition of these shares. If the shares are not sold during this period, then the corresponding portion of the share capital of the Company must be annulled. Upon acquisition of its own shares, the Company has no right to exercise property and non-property rights conferred by such shares.

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. One ordinary registered share of the Company gives one vote in the General Meeting of Shareholders.

Shareholders' agreements

In accordance with the Shareholders' Agreement (the agreement between RAO Nordic OY and UAB Scaent Baltic), neither RAO Nordic OY, nor UAB Scaent Baltic will have the right to sell or otherwise transfer its ordinary shares in the Company or any part thereof to any third party or create any other third party rights to the Shares or any part thereof, until 31 December 2015, except upon receiving the prior written consent of RAO Nordic OY and UAB Scaent Baltic.

In addition, pursuant to the lock-up agreement, entered into between RAO Nordic OY and UAB Scaent Baltic and UAB FMJ ORION Securities, RAO Nordic OY and UAB Scaent Baltic have agreed to certain restrictions including, but not limited to: (i) an undertaking not to offer, sell, transfer, vote in favor of, or otherwise dispose of, or publicly announce the issuance, offering, sale or disposal of any ordinary shares; and (ii) an undertaking not to enter into any swap or other transaction that transfers, in whole or in part, the economic consequences of ownership of Shares or options, without the prior written consent of UAB FMJ ORION Securities for a period of a year following the admission and introduction of Shares to trading on Warsaw Stock Exchange, which was executed on 18 December 2012.

Information about trading in the Company's securities

In December 2012, the initial public offering of the Company's ordinary shares was completed on the Warsaw Stock Exchange. The total oversubscription for the Company's ordinary shares exceeded 26 per cent. The Company's ordinary shares were included into the Main list of the Warsaw Stock Exchange.

- On 12 December 2012, the Company's ordinary shares were allotted to investors at PLN 24.17. Total subscription for shares exceeded 26 per cent.
- On 18 December 2012, the Company's ordinary shares debuted on Warsaw Stock Exchange and closed at the price of PLN 25.75 per share.

During the six trading sessions the Company's ordinary share price has increased by 10.2 per cent and the turnover of the Company's shares has reached PLN 2 862 thousand.

Information about trading in the Company's shares on Warsaw stock exchange in 2012:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover
PLN	25.75	26.64	25.75	26.64	26.23	2,862,401

The Company has signed market making agreement with UAB FMJ ORION Securities.

The Group's market capitalization as of 31 December 2012 reached PLN 532.8 million.

Dividends

According to the shareholders' agreement, RAO Nordic OY and UAB Scaent Baltic shall cause their respective nominees in the Supervisory Board and Management Board to support the distribution of no less than 70 per cent of the relevant year net profit as dividends to shareholders.

RAO Nordic OY and UAB Scaent Baltic shall vote their ordinary shares at the General Meeting to ensure such distribution of the net profit, unless the Management Board, in acting in the best interests of the Company by approving the annual investment program, decides that the Company should make investments with the relevant year's net profit.

Dividend per share declared by the Company in the financial years ended 31 December 2011, 2010 and 2009 was equal to LTL 60.79 thousand, LTL 28.98 thousand and LTL 35 thousand respectively.

Dividends for 2011, 2010 and 2009 amounted to LTL 64.0m, LTL 60.8m and LTL 29.0m respectively.

	2009	2010	2011
Net profit	15	59	61
Dividends declared	29	61	64
Dividend payout ratio	193%	103%	105%

On 20 July 2012 RAO Nordic OY and UAB Scaent Baltic adopted resolution on the increase of the share capital from the Company's own funds from LTL 1,000,000 to LTL 20,000,000. As a consequence the net profit for distribution for the financial year ending 31 December 2012, will be reduced by the amount of the share capital increase.

IV. Personnel

The table below presents the Group's data on the headcount of employees divided into categories, in the periods indicated.

As of 31 December	2012	2011	2010	2009
Management	8	8	5	4
Sales Managers, including Traders	11	4	4	3
PR & Marketing Staff	2	2	1	-
Project managers	4	3	2	2
Technical staff	3	1	1	-
Office Staff	9	6	5	4
Total	37	24	18	13

As of 31 December 2012, 30 of the Group's employees were employed in Lithuania, 5 were employed in Latvia and 2 in Estonia. No employee was employed in Poland.

The Group recognizes the importance of its staff in operating a stable and efficient business, and in providing the highest level of customer service and, accordingly, the Group strives to recruit, train, reward and retain only the best personnel. The Group usually introduces a remuneration system comprised of a standard gross salary, paid monthly, as well as bonuses, based on the discretionary decision of the Management.

As of 31 December	2012	Employment related expenses, in mln. LTL
Management	8	3,57
Sales Managers, including Traders	11	0,63
PR & Marketing Staff	2	0,07
Project managers	4	0,05
Technical staff	3	0,10
Office Staff	9	0,53
Total	37	4,96

Members of the Supervisory board of the Company as well as members of the Management board of the Company did not receive any payments for serving in these positions in the course of 2012, except when they were employed in the Company and received employment related income. In 2012 the Company's employment related expenses (excluding social security tax, payment for guarantee cover and vacation expenses accruals) for members of Supervisory and Management boards employed in the Company amounted to LTL 1,99 million.

There are no trade unions or workers councils registered in the Group Companies. There are no collective bargaining agreements concluded in the Group companies.

As of 31 December 2012, the Group's employees, except for Mr Jonas Garbaravičius, Mr Giedrius Balčiūnas, Mr Vidas Čebatariūnas, Mr Saulius Garbaravičius and Mr Nerijus Veikša, do not have any direct or indirect shareholdings in the Company, do not hold any stock options or other rights to the Shares and do not participate in any other way in the capital of the Company. There are no arrangements relating to such participation.

V. Managing Structure of the Company

Set out below is a summary of relevant information concerning the CEO, the Management Board, Supervisory Board, and Senior Management, well as a brief summary of certain significant provisions of Lithuanian corporate law, the Company's Articles of Association with respect to the Management Board and Supervisory Board.

The Board does not provide any compensations or pay-outs in case any member of the Board resigns prior to the termination of the term of the Board.

Management Structure

The Company has a three-tier management structure consisting of the Management Board, Supervisory Board, and the head of the Company – its CEO.

According to Lithuanian law, the CEO is responsible for day-to-day management of the Company and is entitled to make decisions regarding the Company's business individually, except for decisions requiring consent of the Management Board. He/ She is also the only one entitled to represent the Company in relations with third parties. Generally, the Management Board is responsible for significant and strategic decisions regarding the Company's business. The Management Board is not entitled to represent the Company in relations with third parties. The Management Board appoints the CEO. The Supervisory Board supervises the activities of the Management Board and the CEO and appoints members of the Management Board.

The CEO

The CEO is elected for an undefined period of time and can be recalled by the Management Board. The CEO does not have to be a member of the Management Board. The Management Board also establishes the CEO's salary, incentives, and other conditions of his/ her employment and imposes penalties. The CEO's employment contract is signed by the chairman of the Management Board or a member authorized by the Management Board.

Under the Shareholders' Agreement, RAO Nordic OY and UAB Scaent Baltic undertook to cause their nominated Management Board members to vote to elect a candidate nominated by UAB Scaent Baltic for CEO and to vote to remove and/ or replace the CEO in case UAB Scaent Baltic requests such removal and/ or replacement, or when UAB Scaent Baltic requests the election of a new candidate to fill the vacancy as a result of the resignation of the CEO, or when RAO Nordic OY request for removal of the CEO is based on a justified and substantiated claim that the CEO acted against the lawful interests of the Company or violates applicable laws, the Articles of Association, any internal document of the Company, lawful decisions of the General Meeting, the Supervisory Board or Management Board which are mandatory for the CEO.

A shareholder (as well as bodies of the Company, their members and affected creditors) has the right to appeal in court any resolution of the CEO if it contravenes the imperative provisions of the law, is in conflict with provisions of the Articles of Association of the Company or violates the principles of general reasonableness and good faith.

Mr Giedrius Balčiūnas has been the CEO of the Company since 20 May 2003.

Management Board

The Management Board is responsible for the strategic direction of the Company under the supervision of the Supervisory Board. The Management Board is required to invite the CEO to every meeting and provide him/her with the possibility to become familiar with the information on the agenda. Under the Articles of Association, all resolutions of the Management Board must, depending on the type of decision, be adopted either by a simple majority of the votes cast, or unanimously.

A shareholder has the right to appeal in a court any resolution of the Management Board if they contravene the imperative provisions of the law, are in conflict with provisions of the Articles of Association of the Company, or violate the basic principles of reasonableness and good faith.

A member of the Management Board may also file a claim in court to invalidate a decision of the General Meeting if it contravenes the imperative provisions of the law, is in conflict with provisions of the Articles of Association of the Company, or violates the general principles of reasonableness and good faith.

The Company's Management Board consists of five board members, including the chairman of the Management Board. Under Lithuanian law, the Management Board may act if at least 2/3 of the number of members established in the Articles of Association are appointed and participate in the Management Board activities. Under the Articles of Association, the members are appointed for a term of four years. Each member may be reappointed. The Supervisory Board elects the Board members by a majority of votes of the members who attended the Supervisory Board's meeting and those who voted in advance. The chairman of the Management Board is elected by the Management Board. The Supervisory Board may recall the entire Management Board or its individual members before the expiry of the term of their office if at least 2/3 of the Supervisory Board members present at the meeting vote for such a decision.

Under the Shareholders' Agreement, RAO Nordic OY and UAB Scaent Baltics undertook to cause the members of the Supervisory Board nominated by them to vote in order to elect two candidates nominated by UAB Scaent Baltic and three candidates nominated by RAO Nordic OY. Furthermore, under the Shareholders' Agreement, RAO Nordic OY and UAB Scaent Baltics undertook to cause the members of the Management Board nominated by them to vote in order to appoint a candidate indicated by RAO Nordic OY as the chairman of the Management Board.

Moreover, under the Shareholders' Agreement, RAO Nordic OY and UAB Scaent Baltics undertook to cause the members of the Supervisory Board nominated by them to convene a Supervisory Board meeting and to vote in order to remove and/or replace a member of the Management Board who was nominated by any of RAO Nordic OY and UAB Scaent Baltics at the request of such shareholder, including in cases when such member of the Management Board does not follow instructions given by that shareholder.

The term of office of the Management Board shall commence after the closing of the Meeting of the Supervisory Board at which it was elected. The Management Board shall perform its functions for a term of four years or until election and commencement of functioning of a new Management Board, but no longer than until the annual General Meeting to be held in the year at the end of the term of office of the Management Board.

As of 31 December 2012, the Company's Management Board is composed of five members. The table below sets forth the names, positions, appointment date, and terms of office of the current members of the Management Board as of 31 December 2012.

Name	Position/Function	Date of Appointment	Expiration of term of office
Karina Tsurkan	Member of the Management Board Chairman of the Board	21 October 2011	2015
Ilnar Mirsiyapov	Member of the Management Board	20 July 2012	2016
Dmitry Palunin	Member of the Management Board	15 March 2010	2014
Giedrius Balčiūnas	Member of the Management Board – CEO	20 July 2012	2016
Vidas Čebatariūnas	Member of the Management Board Commerce Director	20 July 2012	2016

The business address of the members of the Management Board is the Company's principal place of business at A. Tumėno 4, Vilnius, Lithuania, except for Mr Mirsiyapov, whose business address is at Bolshaya Pirogovskaya 27, Building 3, Moscow 119435, Russian Federation.

Karina Tsurkan

has served on the Company's Management Board since 21 October 2011. She currently holds the position of Chairman of the Board, a position she has held since 19 July 2012. Her past functions within the INTER RAO UES group enabled Ms Tsurkan to gain proficiency in the energy sector. She was the Head of the Geographical Unit of Moldova, Romania, Ukraine (2010-2011), and subsequently for Europe (2011-2012) in INTER RAO UES. In 2012, she became a member of the management board of INTER RAO UES and Head of the Trading Unit. Additionally, she is the chairman of the boards of several other energy companies from INTER RAO UES group, such as INTER Green Renewables and Trading (since 2011), Enerji Toptan Ticaret (since 2011), and RAO Nordic OY (since 2011).

Ms Tsurkan holds a Bachelor's degree in law from the International Independent University of Moldova, which she obtained in 1999, and a MBA from the University Consortium of Spain, which she obtained in 2004.

Ilnar Mirsiyapov

has served on the Company's Management Board since 20 July 2012, after a term of service in a period 2010–2011, followed by a short break. His career includes a number of managerial positions in companies from the energy sector in CIS countries, including the Atomic Energy Power Corporation (2007 – 2008), the State Atomic Energy Corporation Rosatom (2008 - 2010), Armenian Nuclear Power Plant Company (2010 – 2011, membership on the management boards of Territorial Generation Company No. 11 (2010 - 2011). He currently sits on the management boards of various companies from the INTER RAO UES group involved in the energy industry, such as RT–Energotrading, Irkutsk Power Generation and Distribution or Kambarata-1 Hydro Power Plant.

Mr Mirsiyapov holds several degrees: a Bachelor's degree in Management in 2005, a Ph.D. in Sociological Sciences in 2006, both from the Moscow State Institute of International Relations; an Engineer's degree in Oil & Gas Production and Development from the Almet'yevsk State Oil Institute in 2007; and a Ph.D. in Economic Sciences from the Institute of Economics of the Russian Academy of Sciences in 2009. He is currently studying law at the Moscow State Law Academy.

Dmitry Palunin

has served on the Company's Management Board since 15 March 2010. His work enabled Mr Palunin to gain considerable experience in the energy sector within the INTER RAO UES group. His past functions in the group include the Associate Head of the Economics and Finance Department (2005 - 2006), the Head of the Treasury Department (2006 – 2007) and Associate CFO (2007 -2009). He currently sits on the management boards of various companies from the INTER RAO UES group involved in the energy industry, such as TGR Enerji, JSC Electric Networks of Armenia, and United Energy Retail Company.

Mr Palunin graduated from the Moscow State Aviation Institute (Technical University) with a Bachelor degree in Management in 2002 and a Master degree in Engineering in 1992. He has completed studies in the Higher School of International Business at Academy of National Economy under the Russian Federation Government, with a Masters of Business Administration degree in Management in 2008.

Giedrius Balčiūnas

has served on the Company's Management Board since 20 July 2012. Mr Balčiūnas has long-lasting relationships with the Group, starting in 2003 when he was appointed as CEO of the Company. He serves as INTER RAO Eesti OU member of the management board since 2010, UAB Alproka member of the management board since 2006. He also served as the Company member of the management board from 2007 to 2008, UAB Vējū spektras (Vydmantai Wind Park) member of the management board in 2011.

Vidas Čebatariūnas

has served on the Company's Management Board since 27 April 2007. He was reappointed to the Management Board twice. He currently holds the position of Commerce Director, a position he has held since 1 August 2005, as well as several other posts in the Group Companies. Since 2010, he has also sat on the management board of UAB Scaent Baltic. He has held managerial positions in the energy industry since 2001, when he received the post of Head of the Economics Department at Lietuvos energija AB (2001-2005). His past professional experience includes managerial positions at the publishing house, Versus aureus leidykla (2008 – 2010), and at the publishing and media group, Baltic Media (2009 – 2011) – both companies from UAB Scaent Baltic's group.

Mr Čebatariūnas holds a Master's degree in Economic Analysis and Planning from Vilnius University, which he obtained in 2002. In 2000, he obtained a Bachelor's degree in Economics from Vilnius University. His education also includes various other courses in the fields of economics and energy. Mr Čebatariūnas has also been a speaker for courses in economics and energy.

Supervisory Board

The Supervisory Board is responsible for supervising the activities of the Management Board and the CEO. The Supervisory Board may adopt decisions, and its meetings are considered to have been validly held only if more than half of its members are present, or represented during such a meeting. The members of the Supervisory Board who have voted in advance shall also be considered to have attended the meeting. Each member of the Supervisory Board is entitled to one vote. Under the Shareholders' Agreement, RAO Nordic OY will cause the members of the Supervisory Board nominated by RAO Nordic OY not to vote in favor of approval of the Supervisory Board by-laws or their amendments if the members of the Supervisory Board nominated by UAB Scaent Baltic do not vote in favor of such decision.

A shareholder (as well as corporate bodies of the Company, their members and affected creditors) has the right to appeal in court any resolution of the Supervisory Board if it contravenes the imperative provisions of the law, is in conflict with provisions of the Articles of Association of the Company, or violates the general principles of reasonableness and good faith.

The Supervisory Board consists of five members, including the chairman. Under Lithuanian law, the Supervisory Board may act if at least half of the number of members established in the Articles of Association are appointed and participate in Supervisory Board activities. The members of the Supervisory Board are elected by the General Meeting. The General Meeting may also remove the entire Supervisory Board or its individual members before the expiry of their term of office.

Under the Articles of Association, the members of the Supervisory Board are elected for a term of four years by the General Meeting. The Supervisory Board commences its activities after the closing of the General Meeting which elected the Supervisory Board and shall perform its functions for a period of four years or until a new Supervisory Board is elected, but not for longer than the date of the annual General Meeting to be held during the final year of the term of office of the Supervisory Board.

A member of the Supervisory Board (as well as other bodies of the Company and their members, shareholders and affected creditors) may also file a claim in court to invalidate a decision of the General Meeting, the Supervisory Board itself, the Management Board or CEO, if it contravenes the imperative provisions of the law, is in conflict with provisions of the Articles of Association of the Company, or violates the general principles of reasonableness and good faith.

A decision to remove a member of the Management Board from office may be taken if at least 2/3 of the Supervisory Board members present at the meeting, including any who have voted in advance, vote for it.

As of the date of 31 December 2012, the Company's Supervisory Board is composed of five members. The Company expects that additional two members of the Supervisory Board will be elected during the first Annual General Meeting. It is expected that such additional members of the Supervisory Board shall meet criteria of being independent.

The table below sets forth the names, positions, appointment date, and terms of office of the current members of the Supervisory Board as of the date of 31 December 2012.

Name	Position/Function	Date of Appointment	Expiration of term of office
Anton Badenkov	Member of the Supervisory Board	22 October 2012	2016
Alexander Abramkov	Member of the Supervisory Board	22 October 2012	2016
Jonas Garbaravičius	Member of the Supervisory Board Counselor of CEO	22 October 2012	2016
Michail Konstantinov	Member of the Supervisory Board	22 October 2012	2016
Alexander Pakhomov	Member of the Supervisory Board	22 October 2012	2016

The business address of the members of the Supervisory Board is the Company's principal place of business at A. Tumėno 4, Vilnius, Lithuania.

Anton Badenkov

has served on the Company's Supervisory Board since 22 October 2012. Prior to his appointment to the Supervisory Board, Mr Badenkov held the position of Chairman of the Company's Management Board. Mr Badenkov additionally serves on the management boards of various companies from the INTER RAO UES group involved in the energy sector, such as the Third Generating Company of the Wholesale Electricity Market (since 2011), or Electric Networks of Armenia (since 2010).

Mr Badenkov graduated in 2004 from Lomonosov Moscow State University with a Bachelor degree.

Alexander Abramkov

has served on the Company's Supervisory Board since 22 October 2012. Mr Abramkov's professional experience in the audit and control departments include position of Deputy General Director for Economy and Finance at JSC National Telecommunications (2008-2009), Deputy General Director for Internal Control and Risk Management at ZAO National Media Group (2009 – 2010) and Head of Internal Audit, Controlling and Risk Management Unit at INTER RAO UES (since 2010). Mr Abramkov additionally serves on the management boards of various companies from the INTER RAO UES group involved in the energy sector, such as Mosenergosbyt, or Territorial Generation Company No. 11.

Mr Abramkov holds a Master's degree in Management, which he obtained in 2000 from Saint-Petersburg State University.

Jonas Garbaravičius

has served on the Company's Supervisory Board since 22 October 2012. He currently holds the position of Counselor of CEO. He additionally holds the position of chairman of the management board of UAB Scaent Baltic. In the past, he was chairman of several other companies: Scaent Holdings Cooperatie UA (2009 – 2011), Baltic Brothers Group (2005 – 2007) and UAB Express Media, currently SC Baltic Media (2008 – 2009). Mr Garbaravičius has also gained experience in the energy sector via his position as member of the management board of INTER Green Renewables and Trading, a joint venture of RAO Nordic OY and Shelffour AB (since 2011), as well as Onergo, a Finnish subsidiary from UAB Scaent Baltic's group (2008 -2009). In years 2008-2012, Mr Garbaravičius was a member of the Management Board of the Company.

Mr Garbaravičius holds a Bachelor's degree in Business Administration from Vytautas Magnus University, which he obtained in 2000. He also studied in International Commercial Law at Vytautas Magnus University from 2000 to 2002. He also took part in the Energy Experts Programme in 2002, organised by the Nordic Council of Ministers.

Michail Konstantinov

has served on the Company's Supervisory Board since 22 October 2012. Currently, Mr Konstantinov is Director for Corporate Governance of the Corporate and Property relations Unit of INTER RAO UES. His past professional experience also includes managerial positions at Atomic Energy Power Corporation (2007 - 2008), Federal Bailiff Service of the Russian Federation (2008 - 2010) and JSC Bank Sobinbank (2010 - 2012). Mr Konstantinov additionally serves on the management boards of various companies from the INTER RAO UES group involved in the energy sector, such as the Saint Petersburg Energy Sales Company (since 2011), First Generating Company on the Wholesale Electricity Market, as well as the Third Generating Company of the Wholesale Market (both since 2012).

Mr Konstantinov holds a Bachelor's degree in law from the International Environmental and Political University in Moscow, which he obtained in 1999. Additionally he holds a Specialist in Law degree from the Tver Institute of Ecology and Law and a Ph.D. degree in Law from the Moscow Academy of Economics and Law, both of which he obtained in 2003.

Alexander Pakhomov

has served on the Company's Supervisory Board since 22 October 2012. His past functions within the INTER RAO UES group enabled Mr Pakhomov to gain proficiency in the energy sector. He was the Deputy Head of the Accounting Department of Financial Direction (2005 - 2007), Deputy Head of Accounting Department – Head of the Tax Planning Department of the Financial Activities Division (2007 - 2008), Legal Department Director (2008 - 2011). In 2012, he became a member of the management board of INTER RAO UES and Head of the Legal Department. Mr Pakhomov additionally serves on the management boards of various companies within the INTER RAO UES group involved in the energy sector, such as RUS Gas Turbines Holding, or TGR Enerji.

Mr Pakhomov holds two diplomas in Jurisprudence from the Military University of the Ministry of Defence of the Russian Federation and from the Academy of Public Administration under the President of the Russian Federation, which he obtained in 1995 and 1999, respectively.

Senior Management

In the opinion of the Company's management, except for members of the Company's corporate bodies, the following persons are the most important for the Group (herein after the "Senior Management"):

Name	Position/Function
Paulius Vazniokas	Economic Director
Aiste Vaitaityte	Deputy CEO
Edvardas Važgėla	Electricity Trading Development Director
Nerijus Veikša	Legal Department Director

The business address of the members of the Senior Management is the Company's principal place of business at A. Tumėno 4, Vilnius, Lithuania.

Paulius Vazniokas

has been the Economic Director of the Company since 2007. He currently holds several positions in the Group Companies. Since 2007, Mr Vazniokas has also sat on the management board of UAB Scaent Baltic. He also holds various positions in companies from UAB Scaent Baltic's group. Before joining the Group, Mr Vazniokas gained experience as: Head of Commercial Real Estate Department in Kaunas branch of Ober Haus UAB (2000-2002), Real Estate Project Manager and Director at AB Panevėžio keliai group (2002-2004), as well as a CFO and Head of Administration at UAB Realtus (2004-2007).

Mr Vazniokas holds Bachelor's degree in Business Administration from Vytautas Magnus University, which he obtained in 2000. In 2002 he obtained Master's degree in Finance and Banking from Vytautas Magnus University. Mr Vazniokas also obtained Ph. D. degree in Economics from Vytautas Magnus University in 2011. Since 2007, he has lectured at Vytautas Magnus University. Mr Vazniokas also studied law at Vilnius University (2002-2006).

Aiste Vaitaityte

has been the Deputy CEO of the Company since 1 June 2005. She has been associated with the Group since 2003 and, before becoming the Deputy CEO, Ms Vaitaityte held position of Head of Information Analysis and Transmission Division.

Ms Vaitaityte holds Master's degree in Law and Management from Mykolas Romeris University, which she obtained in 2003. In 2000 Ms Vaitaityte obtained Bachelor's degree in Social sciences from Lithuanian University of Educational Sciences.

Edvardas Važgėla

has been the Electricity Trading Development Director of the Company since 2012. Before joining the Group, Mr Važgėla had, for over 20 years, been associated with Lietuvos energija AB, working as: Leading Engineer (1991-1993), Energy Marketing Services Manager (1993-1996), Energy Trading Center Director (1996-2001), Electricity Market Department Director (2001-2009) and Wholesale Electricity Trading Department Director (2010-2011). Moreover, in years 1977-1991 Mr Važgėla worked for Lithuanian National Energy System, first as an Engineer Inspector and later as an Electrical Inspection Chief.

Mr Važgėla graduated from the Kaunas Polytechnic Institute in 1977 with specialization in electricity engineering. His education also includes various courses in the fields of electricity and energy.

Nerijus Veikša

has been the Legal Department Director of the Company since 2007. He also works as a lawyer at UAB Scaent Baltic. His past professional experience includes posts of: Director at National Association of Business Administrators (2002-2003), Assistant General Director at Kauno termofikacinė elektrinė (2003-2006), General Director at UAB Scaent Baltic Energy (2007-2009), Member of the supervisory board at OMX Baltic Benchmark Fund (since 2010) and Member of the management board at UAB SC Baltic Media (2009-2012).

Mr Veikša holds Master's degree in International Commercial Law from the Law Faculty of Vytautas Magnus University, which he obtained in 2002. In 1999, he also obtained Bachelor's degree in Business Administration from Vytautas Magnus University.

Committees

In order to properly implement its supervisory function, the Supervisory Board has the right to form its committees. As of 31 December 2012, the Audit committee was established by the Supervisory Board. The members of the Audit Committee has not yet been selected and approved by the Supervisory Board.

Auditors

The Consolidated and the Company's Financial Statements for the year ended 31 December 2012 presented in the annual report were audited by UAB Ernst & Young Baltic (license No. 001335), with its seat at Subačiaus 7, LT-01127 Vilnius, Lithuania. Ms Asta Štreimikienė (auditor license No. 000382) is the signatory of the independent auditors' report on the Consolidated and the Company's Financial Statements.

Social Responsibility

The Group constantly supports various organizations and initiatives as a part of its business mission. For the financial years ended 31 December 2012, 2011, 2010 and 2009, the Group spent LTL 3.89 million, LTL 4.07 million, LTL 3.91 million and LTL 3.63 million, respectively, on charity and other support. These costs represent Group's corporate values and culture to support and contribute to the overall social welfare. Support, provided by the Group, is concentrated on three areas: communities, education, culture and sports. While contributing to the social communities the Group donates to orphanages, hospitals, churches and various other charity and support organizations. When sponsoring culture and education spheres, the Group supports universities, schools, theatres, orchestras and various other organizations and events. Sports sponsorship started at the very beginning of the company's activities, the main attention is paid to basketball, football, car races, tennis and various other sports organizations and events.

Environment matters

The Group uses the most innovative means and the most modern technological processes that meet ecological standards. In addition, the Group owns wind park located in Vydmantai, which produces eco-friendly electricity.

VI. Statement On Corporate Governance

Statement on compliance with the CODE OF BEST PRACTICE FOR WSE LISTED COMPANIES

The Company hereby informs about the Company's partial non-compliance with the Code of Best Practice for WSE Listed Companies ("WSE Corporate Governance Rules"). The WSE Corporate Governance Rules can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange: www.corp-gov.gpw.pl and on the corporate website: www.interrao.lt in the section "For Investors".

The Company acknowledges the importance of the good corporate governance and intends to apply WSE Corporate Governance Rules as wide as is practicable. However, due to, inter alia, differences between Polish and Lithuanian Corporate Law the Company will not comply with the following rules:

Rule II.1.6, according to which the Company should publish on its website annual reports on the activity of the Company's Supervisory Board, taking account of the work of its committees, together with the evaluation of the internal control system and the significant risk management system submitted by the Supervisory Board. According to Lithuanian law, the Supervisory Board is not required to draw up an annual report.

Rule II.1.14, according to which the Company should publish on its website information about the content of the Company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule. According to Lithuanian law, the audit firm is selected by the annual general meeting of the Company's shareholders (the "Annual General Meeting") to perform the audit of annual financial statements. The Supervisory Board, the Management Board and the shareholders having at least 1/20 of votes may at any time prior to or during the Annual General Meeting suggest in writing or by means of electronic communication the audit firm, therefore such rule is not required and the Company has not adopted any rules regarding the issue.

Rule II.3 and Rule III.9, according to which the Supervisory Board should approve a significant transaction/agreement with a related entity at the request of the Company's Management Board. In accordance with Lithuanian law, the Supervisory Board is not entitled to approve any decisions of the Management Board.

Rule III.1.1, according to which once a year the Supervisory Board should prepare and present to the General Meeting a brief assessment of the Company's standing, including an evaluation of the internal control system and the significant risk management system. According to Lithuanian law, the Supervisory Board is not required to draw up such an assessment.

Rule III.6, according to which at least two members of the Supervisory Board should meet the criteria of being independent from the Company and entities with significant connections with the Company. As of the date of this report none of the members of the Supervisory Board meets criteria of being independent. The Company expects that additional two members of the Supervisory Board will be elected during the Annual General Meeting. It is expected that such additional members of the Supervisory Board shall meet criteria of being independent.

Rule III.8, according to which annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board should apply to the tasks and the operation of the committees of the Supervisory Board. As at the date of this report, the Supervisory Board has not formed any committee. However, it is expected that, as soon as the Annual General Meeting elects two additional, independent members of the Supervisory Board, the audit committee will be formed from among the members of the Supervisory Board.

Rule IV 10, according to which the Company should enable its shareholders to participate in a General Meeting using electronic communication means through real-life broadcast of General Meetings and real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting. The Company does not enable participation in the General Meeting by using electronic communication means through real-life broadcast and real-time bilateral communication. However, the Company does not exclude that such means will be adopted in the future.

Furthermore, the Company will not comply with the following recommendations:

Recommendation I.5, according to which the Company should have a remuneration policy and rules of defining the policy. The Company has not adopted such policy, since the Company's group is developing and the number of employees and members of management do not justify implementation of a complex set of rules.

Recommendation I.9, according to which a balanced proportion of women and men in management and supervisory functions should be ensured. Currently, there is only one woman in governing bodies of the Company, Ms Karina Tsurkan, the chairwoman of the Management Board. However, the Company does not exclude that this recommendation will be implemented in the future.

Recommendation I.10, according to which, if the Company supports different forms or artistic and cultural expression, sport activities, educational or scientific activities, and considers its activity in this area to be a part of its business mission and development strategy, impacting the innovativeness and competitiveness of the enterprise, then the Company should publish the rules of its activity in this area. While the Company continuously supports sport, culture and education as well as social initiatives as a part of its business mission, it does not consider it practicable to impose rules on its activity within these spheres.

Recommendation I.12, according to which the Company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means. Currently, the Company does not envisage such possibility. However, the Company does not exclude that relevant solutions will be introduced in the future.

Description Of The Procedures Of The General Meeting And Its Main Powers And The Rights Of The Shareholders And Procedures Of Their Execution

Procedures of the General Meeting

The General Meeting is the supreme corporate body of the Company. Procedures and powers of the General Meeting of Shareholders are regulated in the Articles of Association and specified in the Lithuanian Company Law.

The Company must hold at least one Annual General Meeting within four months of the end of the financial year. The Annual General Meeting, among other things, is entitled to resolve important corporate matters, such as any amendments to the Articles of Association, any increase and reduction of the share capital of the Company, election and removal of members of the Supervisory Board, selection and removal of the audit firm, approval of the annual financial statements and interim financial statements, adoption of a decision on the distribution of profit, dissolution, merger or transformation of the Company, and certain other matters.

The right of initiative to convene the General Meeting is vested in the Supervisory Board, the Management Board and any shareholders holding at least 1/10 of all votes.

The agenda of the General Meeting shall be prepared by the Management Board or CEO (if the General Meeting is convened by him/her). The General Meeting shall have no right to adopt decisions on issues not announced in the agenda, except when all shareholders with voting rights participate in the General Meeting and no one of them has voted in writing.

The agenda of the General Meeting may be supplemented based on suggestions of the Supervisory Board, the Management Board and any shareholder holding at least 1/20 of all votes, as long as the suggestion is received not later than 14 calendar days prior to the General Meeting. Such suggestion shall be submitted in writing or by means of electronic communication, together with draft decisions, or when no decisions must be adopted, explanations on each of the suggested agenda items shall be submitted.

Shareholders have the right to ask questions regarding items on the agenda of the General Meeting in advance. Under Lithuanian law, the Company is obliged to answer these questions before the General Meeting, provided that the questions were received by the Company not later than 3 business days prior to the General Meeting. If several questions of identical content are submitted, the Company may respond with a single answer.

If the General Meeting is not held due to absence of a quorum (shareholders that have more than half of all votes and participate at the General Meeting constitute a quorum), a repeat General Meeting shall be convened not earlier than in 14 calendar days, and not later than 21 calendar days following the failed General Meeting. The shareholders shall be informed of the convening of the repeat General Meeting in the same manner as the failed General Meeting, but not later than 14 calendar days prior to the repeat General Meeting.

Voting at the General Meeting

Each ordinary share of the Company confers one vote at the General Meeting. Participation and voting in the General Meeting or the repeat General Meeting shall be reserved only for those who are shareholders on the record date, i.e. those who are shareholders at the end of the fifth business day prior to the General Meeting or prior to the repeat General Meeting.

Those authorised by the shareholders and holding a power of attorney issued by means of electronic communication to an individual or a company to participate and vote on his/her behalf at the General Meeting may attend and vote at the General Meeting. Persons with whom an agreement on assignment of voting rights has been concluded may attend and vote at the General Meeting if a shareholder informs the CEO of the Company of any transfer of voting rights by providing copies of the respective agreement and (or) authorization. Under the Articles of Association such document must be provided to the Company within 7 calendar days of the signing of the respective document.

Anyone attending the General Meeting and entitled to vote must present a document which is a proof of his/her identity.

Anyone who is not a shareholder must additionally present a document proving his/her right to vote at the General Meeting.

In addition, shareholders may vote in advance of the General Meeting by filling in written general voting ballots. Shareholders that have voted in advance shall be deemed as participating in the General Meeting and their votes will be counted when establishing the quorum and voting results. If the shareholder so requests, the Company, no later than 10 days before the General Meeting, must dispatch a general ballot paper by registered mail or present this against signature, free of charge. The general ballot paper must also be available on the Company's website (www.interrao.lt) no later than 21 days before the General Meeting.

The General Meeting shall be deemed to have taken place and will be able to adopt decisions if the shareholders holding more than half of all votes of the Company participate in the General Meeting. If the required quorum is not present, the General Meeting shall be deemed to have failed to take place and a repeat General Meeting shall be convened. A repeat General Meeting shall be held based on the agenda of the failed General Meeting and shall not be subject to quorum requirements. General voting ballots of a failed General Meeting will be valid in a repeat General Meeting.

All shareholders participating in the General Meeting have the right to vote and ask questions during the General Meeting. The right to participate and to speak at the General Meeting shall also be held by the members of the Supervisory Board, Management Board, CEO, the General Meeting inspector and the auditor that prepared the conclusion and the report.

The Company must record the voting results for each decision adopted at the General Meeting. The shareholders at the General Meeting shall elect the General Meeting inspector who determines the total number of votes carried by the shares issued by the Company on the day of the General Meeting, the number of valid and invalid general ballot papers filled-in and submitted in advance, the number of valid and invalid proxies submitted, the number of submitted agreements on the disposal of voting rights, the number of voting shares represented at the General Meeting (in person, through proxies, through persons under agreements on the disposal of voting rights, under the general ballot papers filled-in in advance, under other documents entitling to vote), whether the General Meeting has a quorum, and the results of voting at the General Meeting.

Not later than within 7 days following the General Meeting, the Company must post the voting results of the General Meeting on its website. Shareholders or their representatives that have participated in the General Meeting may become familiar with the meeting minutes, and within 3 calendar days after becoming familiar (but not later than within 10 calendar days of the General Meeting), may submit their comments and opinions in writing.

Electing Members of the Supervisory Board

The members of the Supervisory Board are elected by the General Meeting. Under the Lithuanian law candidates for a supervisory board may be proposed by the Management Board and a shareholder(s) holding shares representing at least 5% of votes. When electing Supervisory Board members, each shareholder has a number of votes equal to the number of votes carried by the shares of the Company he/she owns, multiplied by the number of members of the Supervisory Board being elected. A shareholder can distribute votes at his/her own discretion, granting them to one or several candidates. The candidate who receives the highest number of votes prevails. The chairman of the Supervisory Board is elected by the members of the Supervisory Board. If the number of candidates who received an equal number of votes exceeds the number of vacancies on the Supervisory Board, a repeat vote shall be held in which each shareholder may vote only for one of the candidates who received the equal number of votes.

The General Meeting may remove the entire Supervisory Board or its individual members before the expiry of their term of office. Such decision requires a simple majority of votes. If an individual member is removed, resigns or discontinues the performance of his/her duties for other reasons, and the shareholders whose shares carry at least 1/10 of all votes object to the election of individual members of the Supervisory Board, then the entire Supervisory Board shall lose its powers and shall be subject to election. Where individual members of the Supervisory Board are elected, they shall be elected only until the expiry of the term of office of the current Supervisory Board.

Under the shareholders' agreement entered by the principal shareholder of the Company (the Shareholders' Agreement), at all times during the validity of the Shareholders' Agreement, the principal shareholders will vote their shares in order to elect five candidates nominated by the principal shareholders. In addition, the principal shareholders will vote their shares to appoint two independent members proposed by the principal shareholder, since under Lithuanian law, candidates for a Supervisory Board may be proposed by the Management Board and any shareholder(s) holding shares representing at least 5% of votes.

Approval of Annual Accounts

Annual financial statements and an annual report are prepared by the CEO, assessed by the Management Board and commented on by the Supervisory Board. The Annual General Meeting receives annual financial statements and the annual report, together with comments and proposals of the Supervisory Board, and adopts a decision to approve the audited annual financial statements. The same procedure, *mutatis mutandis*, applies to the approval of interim accounts of the Company if the General Meeting makes a decision to distribute dividends to the shareholders of the Company for a period shorter than the financial year.

The annual financial statements, auditor's report, annual report and other information required under Lithuanian law must be made available to shareholders for review from the date of the notice on convening the Annual General Meeting.

Distribution of Profit

Pursuant to the Law on Companies of the Republic of Lithuania, the Company may distribute its profit or assets to shareholders only (i) by paying dividend; (ii) in case of liquidation of the Company; or (iii) in case of reduction of the share capital of the Company.

Decision to distribute profits of the Company, as well as to establish, use, decrease and/or cancel the reserves, is adopted in the General Meeting by the qualified $\frac{3}{4}$ majority of votes of shareholders participating in the General Meeting.

The General Meeting may adopt a decision to declare annual and interim dividends by the qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting. The Company is allowed to pay dividends (i) only to the extent that the Company's equity exceeds the aggregate nominal value of all of the Company's shares plus the amount of any reserves (mandatory reserve, the revaluation reserve and the reserve for acquisition of own shares) that the Company is required to, or is allowed to, maintain pursuant to the Articles of Association or the provisions of applicable laws; (ii) only if the Company has no outstanding non-performed obligations with due terms before the adoption of the decision to pay out dividends, and (iii) only if the Company during the respective financial year or interim financial period has made profit.

Further, payment of interim dividends may be initiated by the proposal of shareholders, holding at least $\frac{1}{3}$ of all votes of the Company. In addition to the above mentioned conditions, interim dividends are allowed to be paid only if (i) financial statements for the respective period shorter than the financial year are approved by the General Meeting; (ii) profit was generated during the respective period that is shorter than the financial year; (iii) the amount of the paid-out interim dividends do not exceed the following: a) profit generated during the respective period that is shorter than the financial year, plus undistributed profit (accumulated during all earlier years) present at the end of the previous financial year, minus part of the profit generated during the respective period that is shorter than the financial year that must be allocated to reserves under the Articles of Association or the Law on Companies (i.e. if the mandatory reserve is below $\frac{1}{10}$ of the registered share capital, deductions must be made to it of not less than $\frac{1}{20}$ of the net profit of the respective financial year); (iv) the Company has no outstanding obligations which became due before adoption of the decision to pay out interim dividends and after the interim dividends are paid, the Company will remain able to meet its obligations for the current financial year.

Dividends are paid to persons who, at the end of the rights record date (i.e. the tenth business day following the day the decision to distribute dividends was adopted by the General Meeting), were shareholders of the Company or were otherwise entitled to receive dividends. Each shareholder is entitled to dividends pro rata to the number of shares held by such shareholder. The Company must pay dividends within one month of the date of resolution adopted by the General Meeting.

Issuance of Shares

The Company may issue new shares pursuant to a resolution of the General Meeting adopted by qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting; no special quorum is required. A qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting is also required to issue convertible bonds. The decision of the General Meeting to issue new shares shall be deemed void in case of failure to submit the amended Articles of Association to the Register of Legal Entities of the Republic of Lithuania within six months of the day on which the General Meeting adopted the decision. If this deadline is not met, the contributions for the subscribed shares must immediately be returned, without any deductions at the written request of the subscriber.

The Company's share capital may be increased from the Company's own funds by issuing new shares. In such case the shareholders are entitled to receive new additional shares for no consideration in proportion to the nominal value of the shares owned by them on the rights record day (i.e. the tenth business day following the day of the decision of the General Meeting to increase the Company's share capital).

A qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting is also required to establish the class, number, nominal value, minimal issue price of shares in the Company, as well as to convert the Company's shares of one class into another class and related procedures.

Amendment of the Articles of Association

The General Meeting can resolve to amend the Articles of Association by a qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting. The amended Articles of Association shall come into force on the day of the registration of the Articles of Association with the Register of Legal Entities of the Republic of Lithuania. Once the amendments to the Articles of Association are entered in the companies register, the Company publishes a relevant current report.

The Rights of the Shareholders and Procedures of Their Execution

In addition to the rights described above, the shareholders of the Company also enjoy other rights established by the Lithuanian Company Law or other legal acts of the Republic of Lithuania.

Right to Transfer the Shares

According to Lithuanian law, the Company is prohibited from introducing any additional restrictions of the shareholders right to dispose of fully paid shares to another person. There are no restrictions on transfer of the shares, other than those described in applicable laws or agreed between the shareholders of the Company.

Pre-emptive Right

Each shareholder holding the shares at the end of the rights record date (i.e. the tenth business day following the day of the decision of the General Meeting to increase the Company's share capital) has a pre-emptive right with respect to all new share issuances or convertible bonds, in proportion to the number of shares held by such shareholder.

Pre-emptive rights may be withdrawn by a decision of the General Meeting taken by a qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting. The right of pre-emption to acquire new shares being issued by the Company or the convertible bonds may only be withdrawn for all shareholders of the Company. A written proposal to withdraw the pre-emptive right must be given by the Management Board, indicating reasons and causes for such withdrawal, as well as persons who would be offered to acquire the newly issued securities. The General Meeting, taking a decision on withdrawal of the pre-emptive right, must justify the necessity to withdraw such right and specify the person or persons who are given the right to subscribe to newly issued securities or convertible bonds, save for cases when the pre-emptive right is withdrawn because of the intention to make a public offering of securities of the Company under the procedure set by the Lithuanian Law on Securities.

Right to Receive Information

At the written request of any shareholder, the Company shall, no later than within 7 days from the day of receipt of such request, submit to the shareholder to become familiar with and (or) present copies of the following documents: the Articles of Association of the Company, annual and interim financial statements, annual and interim reports of the Company, audit statements and reports, minutes of the General Meeting and other documents containing decisions of the General Meeting, lists of the shareholders, other documents of the Company which must be public by law of the Republic of Lithuania as long as they do not contain any commercial (industrial) secret or confidential information of the Company. Upon submission to the Company of a written undertaking in the form established by the Company not to disclose the commercial (industrial) secret and confidential information, a shareholder or group of shareholders holding or possessing more than half of all the shares shall have the right to become familiar with all documents of the Company. The Company has the right to refuse to provide to the shareholder present copies of the documents if it is unable to determine the identity of the shareholder. Refusal to provide to the shareholder with present documents shall be executed by the Company in writing at the shareholder's request. Disputes regarding the right of the shareholder to information shall be settled in court.

The Company's documents and other information or copies thereof shall be presented to the shareholders at the registered office of the Company. The Company's documents, their copies and other information shall be presented to the shareholders, free of charge.

Inquiry Right

One or more shareholders, individually or jointly representing at least $\frac{1}{10}$ of the share capital of the Company, may assert their inquiry right. This means that they may appeal to the court in writing to appoint one or more experts to conduct an inquiry of the activity and affairs of the Company, i.e. whether the Company or the Company's corporate bodies or their members acted in the proper manner.

In the event of improper performance of the activity, the following sanctions may be imposed by the court after evaluating the findings reported by the appointed experts: (i) revocation of the resolutions taken by the corporate bodies; (ii) temporary suspension of the powers of the members of the corporate bodies or exclusion of a person from the corporate body; (iii) appointment of provisional members of corporate bodies; (iv) authorisation of non-implementation of certain provisions of incorporation documents; (v) obligation to make amendments to certain provisions of incorporation documents; (vi) transfer to another person of the member's right of the corporate body to vote; (vii) obligation of the Company to take or not take certain actions; and (viii) liquidation of the Company and appointment of a liquidator.

Personal Composition and Procedures of the Company's Management and Supervisory Boards and Its Committees

Rules of conduct of the Supervisory Board, its committees and the Management Board are regulated in the Articles of Association of the Company and the Regulations of work of the Supervisory Board, its committees and the Supervisory Board, respectively.

Management Board

The Company's Management Board consists of five board members, including the chairman of the Management Board. Under Lithuanian law, the Management Board may act if at least 2/3 of the number of members established in the Articles of Association are appointed and participate in the Management Board activities. Under the Articles of Association, the members are appointed for a term of four years. Each member may be reappointed. The Supervisory Board elects the Board members by a majority of votes of the members who attended the Supervisory Board's meeting and those who voted in advance. The chairman of the Management Board is elected by the Management Board. The Supervisory Board may recall the entire Management Board or its individual members before the expiry of the term of their office if at least 2/3 of the Supervisory Board members present at the meeting vote for such a decision. The Management Board is responsible for the strategic direction of the Company under the supervision of the Supervisory Board. Under the Articles of Association, all resolutions of the Management Board must, depending on the type of decision, be adopted either by a simple majority of the votes cast, or unanimously.

The following decisions must be adopted unanimously (defined as all members of the Management Board vote for the adoption of the decision): (i) to approve and amend the by-laws of the Management Board; (ii) election and removal of the CEO, establishment of his/her salary and other employment conditions, to provide him/her incentives and impose penalties; approval of the by-laws of the CEO; (iii) approval of the business strategy of the Company; (iv) approval of the management structure and positions of the Company; (v) becoming an incorporator or member of other legal entities and acquisition of shares or part of capital in other legal entities; (vi) establishing branches and representative offices of the Company, approval of their regulations and nomination of their managers; (vii) investing, transferring of or leasing the tangible long-term assets, the book value of which exceeds 1/20 of the authorised share capital of the Company (calculated individually for each type of transaction); (viii) pledging or mortgaging the tangible long-term assets, the book value of which exceeds 1/20 of the authorised share capital of the Company (calculated for the total amount of transactions); (ix) granting surety or guarantee for the discharge of obligations of third persons, the amount of which exceeds 1/20 of the authorised share capital of the Company; (x) acquiring tangible long-term assets, the price of which exceeds 1/20 of the authorised share capital of the Company; (xi) approval, amendment or termination of the transactions between the Company and persons related to shareholders (except for transactions regarding the sale or purchase of electricity and/or transactions that are included in the annual investment program or budget approved by the Management Board); (xii) approval or amendment of the annual budget of the Company; (xiii) adopting decisions on issuance of debentures; (xiv) approval of transactions which are outside the scope of an annual investment program approved by the Management Board and investments exceeding EUR 1.5 million; (xv) any decisions related to the exercising of the shareholder's rights or obligations in any controlled legal entity of the Company, including (without limitation) voting in the general meetings of shareholders, nomination of the candidates to the governing bodies etc.; (xvi) making transactions or actions for sale or other transfer of the shares, capital or any other form of the membership interest (including any rights carried thereby) held by the Company in any legal entity; (xvii) decision of any other issue attributed to the competence of the Management Board by the laws, by the decisions of the General Meeting and by the Articles of Association; (xviii) approval of the annual investment program of the Company; and (xix) approval of transactions whereby loans, credits or similar financial arrangements to be obtained by the Company or whereby loans, credits or similar financial arrangements to be extended by the Company.

The term of office of the Management Board shall commence after the closing of the General Meeting at which it was elected. The Management Board shall perform its functions for a term of four years or until election and commencement of functioning of a new Management Board, but no longer than until the annual General Meeting to be held in the year at the end of the term of office of the Management Board. As at the date of the Report, the Management Board is composed of five members.

Supervisory Board

The Supervisory Board consists of five members, including the chairman. Under Lithuanian law, the Supervisory Board may act if at least half of the number of members established in the Articles of Association are appointed and participate in Supervisory Board activities. The members of the Supervisory Board are elected by the General Meeting. The General Meeting may also remove the entire Supervisory Board or its individual members before the expiry of their term of office.

The Supervisory Board is responsible for supervising the activities of the Management Board and the CEO. The Supervisory Board may adopt decisions, and its meetings are considered to have been validly held only if more than half of its members are present, or represented during such a meeting. The members of the Supervisory Board who have voted in advance shall also be considered to have attended the meeting. Each member of the Supervisory Board is entitled to one vote.

Under the Articles of Association, the members of the Supervisory Board are elected for a term of four years by the General Meeting. The Supervisory Board commences its activities after the closing of the General Meeting which elected the Supervisory Board and shall perform its functions for a period of four years or until a new Supervisory Board is elected, but not for longer than the date of the annual General Meeting to be held during the final year of the term of office of the Supervisory Board.

The Supervisory Board shall have all powers and rights provided for by the laws and these Articles of Association, including: (i) to approval and amendment of by-laws of Supervisory Board; (ii) election of members of the Management Board and removal from the office; (iii) supervision of activities of the Management Board and CEO; (iv) submission of comments and proposals to the General Meeting on the Company's operating strategy, annual financial statements, draft of profit (loss) appropriation and the annual report of the Company, as well as the activities of the Management Board and CEO; (v) submission of comments and proposals to the General Meeting on draft decision of allocation of dividends for any period shorter than the financial year, and for that purpose composed interim financial statements and annual report; (vi) submission of proposals to the Management Board and CEO to revoke any decisions which are in conflict with the laws, other legal acts, the Articles of Association or decisions of the General Meeting; (vii) request the Management Board and the CEO to submit documents related to the activity of Company; (viii) right to make proposals for the reorganization terms; (ix) right to initiate the conveyance of the General Meeting; (x) right to supplement the agenda of the General Meeting; and (xi) a member of Supervisory Board has the right attend and speak at the General Meeting.

A decision to remove a member of the Management Board from office may be taken if at least 2/3 of the Supervisory Board members present at the meeting, including any who have voted in advance, vote for it.

As at the date of this report, the Supervisory Board is composed of five members. The Company expects that additional two members of the Supervisory Board will be elected during the Annual General Meeting. It is expected that such additional members of the Supervisory Board shall meet criteria of being independent.

Committees

In order to properly implement its supervisory function, the Supervisory Board has the right to form its committees. It is expected that, as soon as the Annual General Meeting elects two additional, independent member of the Supervisory Board, the audit committee will be formed from among the members of the Supervisory Board. The audit committee shall consist of three members, who may be chosen only from the members of the Supervisory Board.

The audit committee's term of office shall be the same as the Supervisory Board. Any decisions made by the audit committee shall be only of an advisory nature to the Supervisory Board. The main tasks of the audit committee shall include, among others, the monitoring of the Company's financial information integrity, the external auditor's independence and objectivity, as well as the effectiveness of the external audit process, the review of internal control and risk management systems.

Description of the Basic Features of the Company's Internal Control and Risk Management Systems Related to the Process of Preparing Financial Statements

The Company's system of internal control and risk management in the process of drawing up financial statements is implemented through:

- the audit of the annual financial statements of the Company and the group companies;
- verification whether a common accounting policies are applied by the group's companies as regards the recognition, measurement and disclosures in accordance with the International Financial Reporting Standards (IFRS), as adopted by EU;
- following accounting standards and monitoring compliance with them.

The Company maintains its financial statements in accordance with the IFRS (approved by the International Accounting Standards Board ("IASB")), as adopted by the European Union (EU).

The Company has certain procedures to authorise the financial statements under which the periodical annual reports are submitted to the Management Board for an approval and after the approval disclosed in public. Subsequently, the financial statements are forwarded to the Supervisory Board for their opinion. The Annual General Meeting receives annual financial statements and the annual report, together with comments and proposals of the Supervisory Board, and adopts a decision to approve the audited annual financial statements. Before the publication, the financial statements are treated as confidential information of the Company and provided solely to persons involved in the preparation, verification and approval process which are bind under the confidentiality undertakings.

Publicly announced information

The major regulatory news during 2012 were related to the introduction of the Company's securities to trading on the Warsaw Stock Exchange. The Company announced that it obtained access to the Electronic System for Information Transmission (Elektroniczny System Przekazywania Informacji - ESPI) and the Electronic Information Base (Elektroniczna Baza Informacji - EBI) system through which the current and periodical information of the Company will be disclosed. The Company also announced about certain non-compliance with the WSE Corporate Governance Rules due to, inter alia, differences between Polish and Lithuanian Corporate Law.

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, I, Giedrius Balčiūnas, General Director of AB INTER RAO Lietuva hereby confirm that, to the best of my knowledge, AB INTER RAO Lietuva Financial Statements as of and for the year ended 31 December 2012 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flows of the Company and the Group. The consolidated Annual report of the Company include a fair review of the development and performance of the business and the position of the Company and the Group in relation to the description of the main risks and contingencies faced thereby

Giedrius Balčiūnas
General Director

