



LITHUANIAN STATE-  
OWNED ENTERPRISES  
IN 2010  
ANNUAL REPORT

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on the Internet at: [www.ukmin.lt/lt/VVI](http://www.ukmin.lt/lt/VVI)

## Ladies and Gentlemen,

Presenting this report, which covers the operations of state-owned enterprises in 2010, I have a pleasure to admit that the reforms, which we began last year, are gaining momentum. In 2010, the Government released the first annual review of state-owned assets in the country's history. The document evaluated the entire portfolio of commercial assets controlled by the State in 2009 and revealed that the return on investment for state-run assets had been dwindling. The report, which prompted discussions among both specialists and the general public, served as an impulse for the Government to take important steps aimed at improving the situation.

As part of the process, in July 2010 the Government approved Transparency Guidelines, which set higher accountability standards for all state-owned enterprises. As of 2011, enterprises are obliged to publish quarterly and annual reports, just like listed companies. In addition, the Ministry of Economy has been preparing broader quarterly and annual reviews covering all state-owned enterprises as of 2010. They provide a wealth of information and data to supervising institutions and the general public. The reports enable the evaluation of individual companies, revealing their efforts, or inability, to carry out reforms.

The current annual report is the second document of its kind, highlighting the initial results of reform efforts, which include higher overall profitability, successful cost-cutting attempts by some enterprises, as well as low operating efficiency at a number of companies.

In total, all state-owned enterprises earned LTL 150 million in profits in 2010, including taxes on property and raw materials paid to the State budget. In absolute figures, aggregate net profits were LTL 112 million higher than the previous year. This is cause for some optimism, though we strongly believe that the results must be significantly better. Theoretically, overall net profits of state-owned enterprises could have been higher by as much as one billion LTL in 2010, provided all state-run companies reached the average return on equity of 8.7 percent recorded by Statistics Lithuania from 2005 through 2010, taking into account all businesses – private and public.

Despite this huge theoretical gap, one should keep in mind that state-run companies differ from private ones in that the former usually render certain services which are vital to society but are loss-making commercially. It is the cost of non-commercial services that constitutes a large portion of the theoretic-

cal one billion LTL, which state-owned enterprises have not earned. I have to stress, however, that these companies must operate more efficiently. The non-commercial services they provide should not serve as an excuse for their inefficiency.

It is obvious that more efficient operations lead to higher State budget revenues. In turn, additional funding could be allocated to areas which need it most, such as pensions, salaries for teachers and medical workers, important investment projects. To boost efficiency, the Government has put the largest state-owned enterprises under the obligation of preparing strategic development plans, which should include ambitious operating objectives.

The above mentioned one billion LTL represents several percent of State budget revenues. The problem is that this money is currently spent without approval and proper control by parliament. By carrying out reforms we want to ensure that the huge sums society pays for non-commercial services provided by state-owned enterprises – as well as for their inefficiency – decrease, while the quality of services improves. Financing of non-commercial services must be fitted into standard procedures of budgetary management. By the end of this year, the Government will be able to assess commercial and non-commercial functions more clearly after an analysis of these services has been completed.

The current report provides detailed information concerning state-owned enterprises. However, one should not forget that a large number of companies controlled by municipalities operate in different markets, as well. They are somewhat less visible and perhaps more loosely managed, but their value is immense and they have direct links to all citizens. Ineffective operations of public utility companies, for instance, translate into higher water and heat prices.

Therefore, the Government will soon obligate municipally-controlled enterprises to follow the Transparency Guidelines. They will have to report their financial and operating results quarterly and annually. This will provide an opportunity to compare the efficiency of companies run by different municipalities. On the other hand, Lithuanian enterprises can be weighed against similar entities operating in foreign countries. Consequently, local governments will be able to take logical and well-reasoned decisions aimed at reducing the prices of services.

Yours sincerely,

Andrius Kubilius  
Prime Minister

# OBJECTIVES AND STRUCTURE

The following overview is the second publication of its kind. The document presents a summary of information and analysis concerning the operations of state-owned enterprises and the performance of the aggregate enterprise portfolio in Lithuania in 2010. By preparing this and the preceding publication, issued in 2010, the government pursued two key objectives: to ensure greater transparency of state-owned enterprises and to spur the effectiveness of their operations. The two objectives are embedded in the so-called Transparency Guidelines passed by the Government in the summer of 2010. This document sets key tasks and principles for the reform of state-owned enterprises.

The current overview provides a variety of factual, statistical and financial information which can be used to evaluate state-owned enterprises from different viewpoints, such as their operations in 2010; key developments in the energy, forestry and transport sectors; as well as corporate plans related to investment, business expansion and strategic development.

By preparing these publications and making them public, Lithuania is following practices employed in other countries, where annual reviews of state-owned enterprises are also published on a regular basis. In fact, the policies in all these countries pursue similar objectives, the most important of them being greater efficacy in management of state-owned enterprises and other state assets. On the other hand, governments wish to provide their citizens, who are indirect owners of all state as-

sets, with consistent information concerning the quality of the state property and important aspects of its management and development.

It must be said that though Lithuania only recently began the reform of state-owned enterprises and other assets, it is in fact working well on par to the world's most progressive countries in terms of seeking maximum transparency within the sector. In addition to annual reports, Lithuanian state-run companies also have an obligation of making public their interim quarterly reports.

The current overview consists of four main sections. The first deals with different facets of state-owned enterprise reform, such as the reasoning behind its launch, its main objectives and the approaches of achieving them. In addition, the section also outlines the experience of several foreign countries in this field. The second section provides aggregate corporate data, which can be used to evaluate the condition of the overall state-owned portfolio and to compare it with the respective figures from 2009.

The third section covers several sectors in which state-owned enterprises operate. Finally, the fourth provides financial results for Lithuania's largest state-owned enterprises in 2009 and 2010. The concluding pages of this publication include a complete list of all state-owned enterprises and an outline of the main principles of the methodology employed in preparing this document.

# OUTLINE: REFORM OF STATE-OWNED ENTERPRISES IN LITHUANIA

## Objectives of the project

Successive governments in Lithuania have shown a lack of attention to state-owned enterprises since the restoration of the country's independence. Thus, a deficit of efficiency in this sector is a glaring consequence of the past years and the reason why greater efficiency of operations is the main objective of the reform of SOEs. Firstly, the program is designed to develop better control by the respective public institutions, which act as their owners. To achieve this, the Government is working to introduce more viable supervision and management mechanisms.

### Strengthening supervision

First of all, the supervision of state-owned enterprises entails ensuring transparent operations and the setting of ambitious business targets. Additionally, companies must use their resources economically and follow principles of effective risk management. Efficient supervision helps to eliminate potential conflicts of interests. Putting it simply, viable supervision helps to build a better management system inside the company.

The supervision function is being transformed based on Transparency Guidelines adopted by the Government in July 2010, as well as the Framework Document on Efficiency Enhancement of State Owned Companies. Companies are obliged to prepare annual and quarterly reports and make them public. Initially, the reports are evaluated by the institutions which directly control respective enterprises. These principles are in line with international practices and allow objective comparison of financial and operating results. Secondly, data provided in the reports can be used to set ambitious, yet realistic business objectives for companies. The reports are published publicly in order to provide all citizens with access to important information about the condition and development of the state-run sector.

When a company has only one shareholder or is controlled by several major shareholders, they are responsible for business efficacy. They are accountable for the appointment of vigorous board members and top managers. They follow a company's financial results and work together with the board to set ambitious targets for the company. In the event of business failure, it is the board and top managers who are firstly responsible. If the results are unsatisfactory, shareholders can change board members or top managers.

The picture is largely different if the ownership of a company is dispersed. As a rule, supervision of such companies is usually weak. Boards feel almost uncontrolled, which usually leads to a worsening of financial results. To strengthen control, shareholders may appoint supervisory boards, which act in shareholders' interest. According to this model, a supervisory board appoints board members and takes on other supervisory duties, acting much like majority shareholders in companies without a supervisory board.

State enterprises are majority owned, though indirectly, by all the citizens in a given country. However, they possess no effective instruments to ensure proper supervision of corporate or other operations. This is why SOEs need supervisory boards. On the other hand, it is natural that shareholders require regular information from the company to be able to assess the efficiency of its operations and management.

This is precisely why the government has adopted the Transparency Policy and the Framework Document on Efficiency Enhancement of State Owned Companies. These decisions seek to better represent the interests of citizens, who will subsequently have a greater ability to involve themselves in the supervision of SOEs. The Transparency Guidelines obligate companies to publish their annual and interim reports publicly. In addition, the Ministry of Economy has started preparing and publishing annual and quarterly reviews covering the entire portfolio of state-run companies. The financial results of the largest companies are presented separately.

### Enhancing management

Corporate management comprises strategic planning and the coordination of business operations; the appointment of board members; and the development of incentive schemes for board members and top managers. SOEs own huge assets which, though only indirectly, belong to all the citizens of a country. Naturally, the value of these assets depends directly on the quality of their management.

A competent and well-motivated board is one of the key factors in attaining profitable and efficient operations at a company. This has been proven by a number of state-run enterprises abroad. The board takes on a scope of important functions, which include defining directions of strategic development, su-

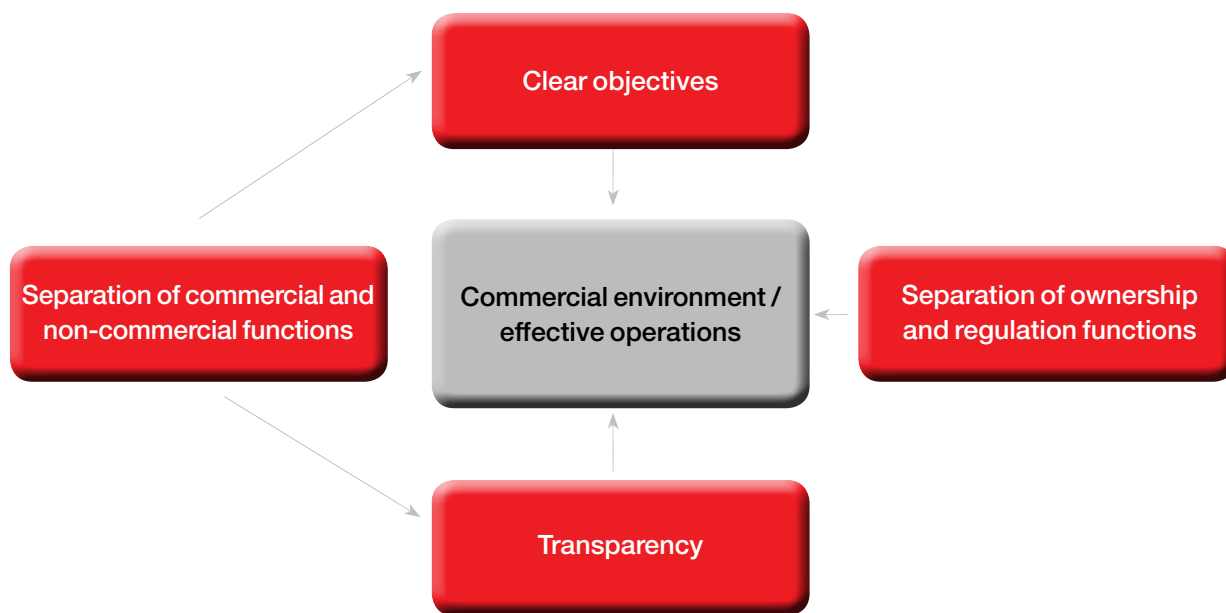
pervising and evaluating the work of top managers and providing information to shareholders.

It is important to stress that Lithuania wants to develop a new incentive system for state-owned companies aimed both at board members and top managers. Their pay should be com-

parable to that in the private sector, but should not exceed it. Moreover, financial rewards must be linked to the results of a company. This model would encourage competent professionals to apply for jobs at SOEs and, consequently, help boost the quality of management.

## Action plan

The Government has emphasized four major aspects of reform as part of its drive to transform the principles of management and supervision of state-owned enterprises. The four aspects are shown below:



### Clear objectives

Controlling institutions, which act according to the Policy Guidelines for Implementation of the Right of Ownership, will have to ensure that all SOEs set clear and transparent commercial and non-commercial objectives. This will help the companies implement their strategic tasks, while delivering products and services to citizens meeting principles of maximum efficiency and best practice.

Corporate activities will be attuned to the long-term mission and vision of a company. Company boards will clearly articulate the company’s objectives. In addition, strategic directions are to be determined according to long-term objectives, while short-time objectives will be used to set financial and other targets for a company.

At the beginning of 2011, for the first time in the country’s history, the Government proposed an initiative urging companies to publicize their financial and other objectives. Particularly, all state-owned enterprises, which operate as limited liability companies, were asked to set expected profitability and EBITDA ratios for 2011. Prior to this, the Ministry of Finance evaluated financial information provided by the companies, as well as their planned budgets, in order to calculate suggested

profitability targets for each company. The new initiative, which was coordinated with company boards, is expected to encourage cost-effective operations and the more efficient use of resources, while striving to deliver better quality products and services from the companies.

### Separation of commercial and non-commercial functions

The Organisation for Economic Co-operation and Development (OECD) has formulated guidelines aimed at better management of state-owned companies. The document urges companies to define their non-commercial (or social) functions and state them clearly in their statutes. In addition, enterprises must separate commercial and non-commercial operations in their accounting documents to ensure greater transparency and simplify financial analysis.

Lithuania’s largest state-owned enterprises will have to evaluate the scope of their non-commercial functions and their related costs, as well as their effect on a company’s overall results. It is important to establish a clear and transparent model according to which the non-commercial operations are to be financed in order to avoid cross-subsidising. This type of financing should not distort the market, which means that a com-

pany must operate according to conditions of fair competition, while executing its commercial activities.

In this respect, Lietuvos Paštas (Lithuanian Post) is an example to follow. The company has undertaken measures to split commercial and non-commercial functions in its accounting documents. The move has helped reveal that the company suffered a LTL 25.5m loss in 2009 from the delivery of newspapers and magazines to people in rural areas. The services, social in their essence, are very important to people living in remote locations. However, they are not profitable for the company. The implementation of a more effective model of financing for this type of non-commercial service will lead to greater transparency of SOEs.

### Ownership and regulation guidelines

State-owned enterprises compete with private businesses – hence the Government must adhere strictly to the principle of the separation of ownership and regulation functions in setting up their corporate management structures. With this in mind, the Government is set to prepare Policy Guidelines for Implementation of the Right of Ownership in the second half of 2011. The document will define the principles according to which ownership and regulation functions will be split. Moreover, the Guidelines will outline the methods of determining remuneration for members of boards and other collegial structures of management. The document will also formalise the principles according to which members of boards are to be appointed. Audit committees will be mandatory in all large SOEs. Following common practice in the European Union and other foreign countries, audit committees will carry out several important functions:

- They will supervise the process of preparation of financial reports;
- They will ensure the efficiency of internal audit, internal control and risk management;
- They will observe the auditing of annual and consolidated financial reports;
- They will evaluate the impartiality of a person or a company performing an audit;
- Finally, they will ensure prevention of any wrong-doing.

**”** The system of bonuses, linked to results, would make state-owned companies an attractive job option for specialists from private businesses.

Company boards will feature independent members who are expected to work more effectively. It is obvious that state-owned enterprises must appoint professional, dynamic and motivated boards possessing a wish and competence to work. Eventually, boards will be able to ensure effective operations of a company and the successful implementation of its business strategy.

The current system of wages and financial incentives does not correspond to the level of responsibility, which top managers of SOEs face. Once clear indicators for the evaluation of state-owned enterprises are set, the wages of their board members can be made dependent on how successful a company is in attaining its financial and other targets. A system of bonuses, linked to results, would make state-owned companies an attractive job option for specialists from private businesses.

### Striving for transparency

Transparency International, which analyses corruption levels across the world and inside individual countries, published its Global Integrity Report in 2008. The report evaluated corporate governance and the effectiveness of anti-corruption measures on a global scale. As for Lithuania, the report indicated that the financial accountability of SOEs is remarkably weak, as the country's citizens have no possibility to obtain information from state-owned enterprises. Additionally, companies are sometimes inadequately audited, which opens the way for accounting manipulation and improper use of resources.

The ongoing reform of SOEs addresses these problems directly. Companies are obliged to prepare financial reports on a regular basis and make them public. This is how the Government strives to ensure better accountability to shareholders. Greater transparency is a key objective on the state level as well. Integrated reports, covering major state-run sectors, have been published since 2010. They provide detailed information concerning the entire portfolio of state-owned enterprises.

### Seeking better financial results

Enhancing effectiveness and transparency of operations at SOEs is the main objective of the sector's reform. Profitable, competitive and well-managed companies would generate higher budget revenues, which could be used to finance social security, education, health care, culture and other important areas. The first review of state-owned enterprises, which covered corporate developments in 2009, revealed that state-run companies transferred a total of LTL42m in dividends to the budget, or LTL14 per capita. It is obvious that better managed and thus more effective enterprises could considerably increase their contribution to the state budget.

### Enhancing a business-friendly environment

Transparent operations of SOEs add to the creation of a business-friendly environment vital to attracting more foreign

investment to Lithuania. An analysis carried out by the World Bank has affirmed that direct foreign investment spurs the development of national economies. Foreign companies often become business catalysers fostering progress of business entities with which they compete directly, as well as related sectors of the economy.

### Developing capital markets

Splitting commercial and non-commercial functions, ensuring transparent operations and profitability will lead to the optimisation of the capital structure of state-owned enterprises. In turn, this will offer broader opportunities to draw additional funds from capital markets. More SOEs listed on stock exchanges can increase market capitalisation and liquidity considerably, which would make the market more attractive in the eyes of local and foreign investors.

### Foreign experience

Large-scale projects aimed at reforming state-owned enterprises are not new worldwide. They have been carried out in a number of countries in Western Europe for many years. Below, we provide an outline of key facts and concepts as to why SOEs exist, what are the basic principles of making their operations more effective and what has been done in this respect in Lithuania.

#### Why countries own enterprises

Advocates of the liberal market maintain that a state must stay away from any commercial activity. However, there are several reasons to justify the existence of state-owned enterprises in market-driven economies. A natural monopoly, the sole business entity in a certain segment of the market, is one of them. In particular, natural monopolies form in the railway and energy sectors. In addition, some SOEs are assigned an obligation to provide products and services, which are vital for society, though not delivered by the private sector. Moreover, the state, as by far the largest owner and manager of public assets, is capable of assuming the risks of investing in large-scale projects, such as the building of new infrastructure and the introduction of new technologies, which are not always commercially viable and which private companies would not undertake on their own.

#### The principles of reform

Some state-owned enterprises are of strategic importance to the economy of any country. SOEs can operate efficiently, generate profits and successfully compete in the market while generating results comparable to or even exceeding those of private businesses. There are numerous examples of commercially viable state-run companies in different countries of the world. They bring benefits to a state in at least two aspects: delivering quality services to citizens and ensuring a certain level of budget revenues. The main principles employed in the reform of SOEs in other countries have been summarised in the OECD Guide-

lines on Corporate Governance of State-owned Enterprises: level-playing field in markets where state-owned enterprises and private

- sector companies compete in order to avoid market distortions;
- the state should act as an informed and active owner and establish a clear and consistent ownership policy, ensuring that the governance of state-owned enterprises is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness;
- state-owned enterprises should observe high standards of transparency in accordance with the OECD Principles of Corporate Governance;
- boards of state-owned enterprises should have the necessary authority, competencies and objectivity to carry out their function of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions.

#### Functions of ownership

Establishing viable state ownership means that a state acts as an active owner of public assets. The state, through its institutions, sets operational and financial goals for companies demanding effective operations and sound results. The state, however, does not intervene directly in corporate activities. Foreign countries have applied three principal models described below:

- Decentralisation. Enterprises are governed by ministries in charge of respective sectors. This model was implemented in the Czech Republic, Poland and Hungary prior to the first stage of privatisation. Currently decentralisation is considered the least effective model because it does not allow proper separation of ownership and regulation functions.
- Dual model. Ownership functions are performed by respective ministries, but the functioning of the entire system is coordinated by a single institution. The institution is responsible for proper co-operation between enterprises and state organisations, defines management policies and sets specific operation guidelines. This model has been implemented in Israel, the United Kingdom, Germany and the New Zealand. It does not, however, solve all the problems related to the separation of functions and leaves some uncertainty as to which institution is de facto responsible for company supervision.
- Centralisation. This model, which calls for the concentration of all ownership functions in one institution, be it a ministry or an agency, has proved most effective in many countries. It has been utilised in Denmark, the Netherlands, Spain, Norway, Sweden, Finland, and other countries. Centralisation helps to identify management functions and separate them from the general policies a government pursues. Moreover, this model enables the attraction and best use of competent specialists, who implement these functions.

## Transparency

Transparency of operations is more important for state-owned enterprises than private businesses. This is because SOEs are owned, though indirectly, by all citizens of a country. It has been a common practice in many countries around the world, with Lithuania joining them from the beginning of 2011, for state-owned enterprises to demonstrate their accountability before citizens by publicly publishing information concerning their operations. Individual SOEs and other organisations must present their own reports. On the other hand, broader quarterly and annual reviews, which cover the entire state sector, are also published.

Usually state-owned enterprises must prepare their reports keeping to the same requirements as listed companies do. This principle applies to non-listed SOEs as well. In all OECD countries, state-owned enterprises are obligated to present annual reports. In France and Norway they must publish semi-annual documents, as well, while in Sweden, Turkey and the New Zealand this obligation also applies to quarterly reports, all of which are audited by independent experts.

Some countries publish integrated reports which help their governments evaluate the current portfolio of state assets and allow for more accurate management strategy formation. This is common practice in Denmark, Italy, Finland, Poland, Norway, France, the United Kingdom and elsewhere.

Integrated reviews are made public, though slightly shortened. Sweden has been following this practice since 1999, France since 2002 and the United Kingdom since 2005. The reviews outline basic management principles applied to SOEs, the implementation of ownership functions by the state and reveal the dynamics of the state-run sector. In addition to that, the reviews include financial data, with the largest companies reviewed individually.

In Lithuania, state-owned enterprises must publish quarterly and annual financial reports, which are presented to the institutions responsible for their supervision and are made public. The integrated overview of the development of the entire state-run sector is published five times a year in order to enhance public accountability of SOEs. Moreover, this allows the Government to monitor the entire portfolio of state assets more closely and react properly. The reform of SOEs has just begun in Lithuania and requires prompt and well-considered decisions.

## Board appointment and incentives

Boards of state-owned enterprises differ mainly in terms of what personalities are appointed as their members. In Denmark, Norway, the Netherlands and the United Kingdom, public servants are not allowed to take positions as board members. In other OECD countries, the tradition is to have at least one public servant in a board or, alternatively, the number of public servants should correspond to the size of interest a state owns in a company. Appointing independent members to

a board is another important aspect. In Turkey, for instance, boards never include independent members while in Scandinavia, the Netherlands, Austria and Germany independent members usually constitute an absolute majority in boards of state-owned enterprises.

## What has been done?

### Lithuania joins OECD working group

In August 2010, the Ministry of Economy applied for membership in the OECD working group dealing with issues related to state ownership and privatisation practices. The OECD has already expressed its readiness to accept Lithuania's participation in the working group with a possibility of becoming a full-fledged member in the future. This will assist Lithuania in analysing and adopting the experience and successful solutions applied by other countries, while implementing reforms at home.

### Corporate development plans

The Government has obligated state-owned enterprises to prepare development plans for a period covering 3 to 7 years. The plans should state efficiency of operations as a company's strategic objective. Additionally, these documents will define concrete indicators to measure efficiency. The plans will also assess strategic projects, their funding methods and their impact on the value of a company.

### Ownership policy

The Ownership Policy, which is due to be adopted by the end of 2011, will feature solutions aimed at the implementation of ownership rights by the state, such as splitting ownership and regulation functions; the main principles for defining strategic and financial objectives for state-run companies; as well as methods for determining salaries for board members and the principles of their appointment. The Guidelines, which integrate the positive experience of other countries and specific national features, will be useful to successfully implement one of the key objectives of reform – the strengthening of ownership rights of the state.

### International co-operation

The Government and other institutions are working diligently to tap the experience of other countries in order to place the entire project of reform of state-owned enterprises on a smooth and effective track. With this in mind, different governmental institutions organise meetings with foreign experts, discuss related issues inside the OECD working group, analyse reports and reviews of other countries, and carry out a number of different co-operation projects.

# FINANCIAL ANALYSIS



## General overview

The tables below provide aggregated financial data of all state-owned enterprises. In this report, some figures and ratios from 2009 differ from those published in the Annual Review of Lithuanian State-owned Assets in 2009 due to the fact that a different aggregation method has been used

in the preparation of the current review (see Methodology) and the data collection has been automated. In addition, the list of SOEs has been revised, alternative evaluation methods have been used in some cases, and different assumptions of asset value have been employed.

Thousand LTL	All state-owned enterprises	
	2009*	2010
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	6 546 557	6 496 718
Cost of goods sold	5 547 013	5 060 708
<b>Gross profit (loss)</b>	<b>999 545</b>	<b>1 425 379</b>
Gross profit margin	15,3 %	21,9 %
Operating cost	1 333 866	1 365 575
<b>Operating profit (loss)</b>	<b>-334 321</b>	<b>59 805</b>
EBIT margin	-5,1 %	0,9 %
<b>EBITDA</b>	<b>1 128 888</b>	<b>1 443 155</b>
EBITDA margin	17,2 %	22,2 %
<b>Net profit (loss)</b>	<b>-7 520</b>	<b>90 623</b>
Net profit margin	-0,1 %	1,4 %
<b>Minority interest</b>	<b>-919</b>	<b>-4 523</b>
<b>BALANCE SHEET</b>	<b>2009</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>23 875 005</b>	<b>25 220 652</b>
Intangible assets	382 343	424 444
Tangible assets	21 796 577	22 473 394
Financial assets	1 340 439	1 840 873
Other fixed assets	355 646	481 941
<b>Current assets</b>	<b>4 665 316</b>	<b>4 243 404</b>
Inventories and prepaid expenses	1 125 209	1 051 871
Accounts receivable in one year	1 851 070	1 467 305
Other current assets	1 072 019	931 609
Cash and cash equivalents	617 018	792 618
<b>TOTAL ASSETS</b>	<b>28 540 321</b>	<b>29 464 056</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>18 373 025</b>	<b>18 773 008</b>
Minority shareholder equity	1 137 992	1 023 673
<b>Subsidies</b>	<b>4 132 192</b>	<b>4 157 579</b>
<b>Liabilities</b>	<b>6 035 103</b>	<b>6 533 469</b>
Long-term liabilities	4 301 070	4 325 503
Short-term liabilities	1 734 034	2 207 966
Financial liabilities	1 968 846	2 223 013
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>28 540 321</b>	<b>29 464 056</b>
<b>Key ratios</b>	<b>2009*</b>	<b>2010</b>
Debt to assets	64,4 %	63,7 %
Debt to equity	10,7 %	11,8 %
ROA**	0,1 %	0,5 %
ROCE**	-1,4 %	0,6 %
ROE**	0,2 %	0,8 %
<b>Other data</b>	<b>2009</b>	<b>2010</b>
Staff	47 720	44 524
<b>Investor return</b>	<b>95 074</b>	<b>155 700</b>
Dividends	41 961	86 189
Property tax	32 751	31 934
Raw materials tax	20 362	37 577

\* Data excludes write-offs by Ignalina Nuclear Plant.

\*\* Profitability ratios exclude taxes on property and raw materials deducted from operating costs.

Asset valuation 2010, in LTL thousand	Value of listed companies	Cash flow method	Expert valuation	Book value	Total
Energy	3 990 880	0	0	608 261	4 599 141
Transport	477 606	0	0	4 805 468	5 283 075
Forestry	0	3 100 000	0	3 242	3 103 242
Other	0	0	0	1 081 681	1 081 681
Property	0	0	7 000 000	0	7 000 000
<b>Total</b>	<b>4 468 486</b>	<b>3 100 000</b>	<b>7 000 000</b>	<b>6 498 651</b>	<b>21 067 138</b>

The value of state-owned enterprises has been calculated using four methods: share prices on the Vilnius Stock Exchange, the discounted cash flow method, indications by property valuers and equity book value (see Methodology). The total value of state assets stood at LTL21.1bn at the end of 2010, up by 6 percent compared to LTL19.8bn in 2009. The transport sector was the biggest gainer, increasing asset value by 14 percent with Lietuvos Geležinkeliai (Lithuanian Railways) adding 19 percent, or LTL421m, to the company's value, of which LTL355m was due to a capital increase. The value of the Klaipėda State Seaport Authority was up by 6 percent (or LTL 55.5m), while Klaipėdos Nafta (Klaipėda Oil), a listed company, almost doubled in value, by LTL218m. In the energy sector, the Visaginas Nuclear Power Plant Group saw an LTL621m, or 20 percent, increase in the company's value while the decommissioned Ignalina Power Plant was the biggest loser wiping out 42 percent (LTL118m) of its value, of which LTL53m was due to capital reduction and the transfer of assets to two companies of the Visaginas Nuclear Power Plant Group. Lietuvos Paštas (Lithuanian Post) lost LTL14.7m (12 percent) of value, mostly due to operating losses.

For the year 2010, state-owned enterprises transferred a total of LTL86.2m in dividends to the state budget. Klaipėda Oil was the only profitable company exempt from paying dividends due to an agreement with the Government, under which the company is accumulating funds to build a new liquefied gas terminal.

In addition to dividends, SOEs paid LTL31.9m in property taxes (LTL32.8 in 2009); while state-run forestry enterprises remitted LTL37.7m in raw materials taxes (LTL20.4m in 2009).

Two energy companies, LESTO and Lietuvos Energija (Lithuanian Energy) paid off LTL137m to their parent company, Visagino Atominė Elektrinė (Visaginas Nuclear Power Plant). In total, state-owned enterprises transferred LTL293m to state coffers in the form of dividends and different taxes in 2010.

Seven SOEs were privatised in 2010; their new owners paid a total of LTL23.6m for stakes in those companies. Tukompa and Raseinių Melioracija were the two largest companies sold.

## Financial overview

### General trends and developments

A total of 150 enterprises owned or controlled by the State, are included in the 2010 overview. Pursuing the objectivity of data, aggregated information from 42 forestry enterprises, the Visaginas Nuclear Power Plant Group and the Lithuanian Railways Group have been used.

The energy sector retained its leading position in terms of sales in 2010, while the Visaginas Nuclear Power Plant Group was the largest energy enterprise, wholly owned by the State. Lietuvos Dujos (Lithuanian Gas) has also been attributed to the energy sector as the State owns a 17 percent stake in the company. The ownership method was used while integrating Lietuvos Dujos into aggregated financial reports.

Total expenses at SOEs edged up by 2 percent in 2010, to LTL1.4bn. The steepest rise in operating expenses was recorded in the forestry sector, partly due to higher raw materials taxation. On the other hand, the energy sector showed the biggest decline in operating costs, mostly because of the closure of the Ignalina Nuclear Power Plant.

The energy sector remains the largest also in terms of book value of assets, which account for as much as 47 percent of total assets owned by the State. The value of the transport sector was reduced by deducting the value of roads (LTL6.16bn at the end of 2010) because regional road maintenance companies are not investing in road building and development. Despite that, they tend to include roads in their balance sheets. Investment in road infrastructure is managed and supervised by the Lithuanian Road Administration.

The value of forests is not included in forestry companies' books, according to standards of business accounting. However, this rule has been neglected in this review because the inclusion of the indicative value of forests in the aggregate balance sheet of forestry companies adds to a more objective evaluation of their assets.

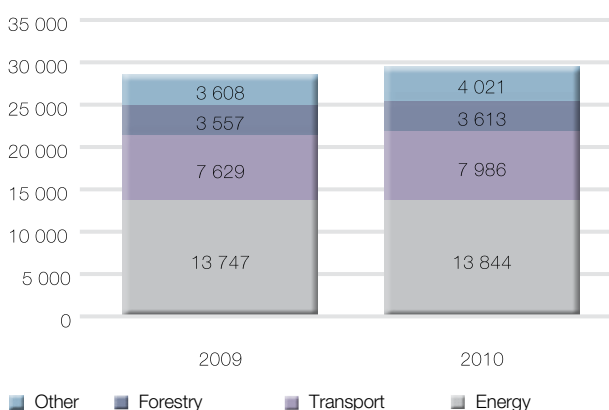
The Other Enterprises sector covers a number of companies that can not be attributed to energy, transport or forestry sectors. The Lithuanian Radio and Television Centre, Turto Bankas, the Deposit and Investment Insurance, the Lithuanian Petroleum Products Agency, the Registry Centre and Regitra are the largest enterprises in this sector.

Currently, there is no institution in Lithuania responsible for the management of state-owned real estate. The lack of reliable data about property not included in the books of state-owned enterprises has left this type of property outside this review.

### Book value of assets

The overall book value of assets rose by 3.2 percent in 2010, from LTL28.5bn in the beginning of the year to LTL29.5bn at the end of the year. In the energy sector, the Visaginas Nuclear Power Plant Group owns as much as 84 percent of all assets. The group's consolidated report covers the financial data of eighteen companies it controls. The transport sector is dominated by Lithuanian Railways, which takes up 56 percent of the sector's assets, distantly followed by the Klaipėda State Seaport Authority which controls 15 percent of the sector's assets. Inside the Other Enterprises sector, the Deposit and Investment Insurance controls 38 percent of assets.

### Assets, in LTL million



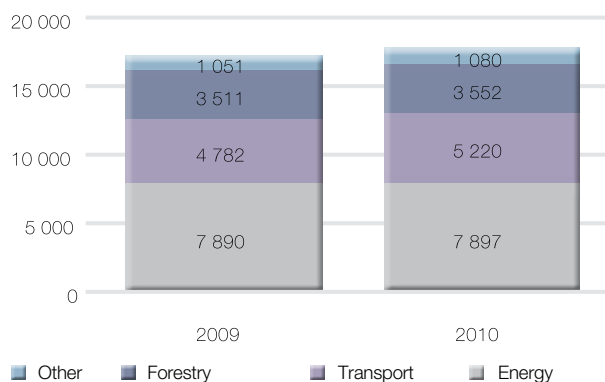
In terms of legal status of enterprises, 62 percent of all assets were controlled by public companies, while the remaining 38 percent were on state enterprises' books at the end of 2010.

### Equity

Total equity of state-owned enterprises, less the minority interest, went up by 3 percent, from LTL17.2bn to LTL17.7bn in 2010. The rise of equity is firstly attributable to the increase of statutory capital of several companies as Lithuanian Railways added LTL355.15m to its capital, followed by Automagistrālė (LTL107m) and Būsto Paskolų Draudimas (Housing Mortgage Insurance) which increased its capital by LTL60m.

Please note that the value of roads, which amounts to LTL6.16bn, has been eliminated from this report which leads to a respective decrease in fixed assets and equity. In the forestry sector, equity data include the indicative value of forests.

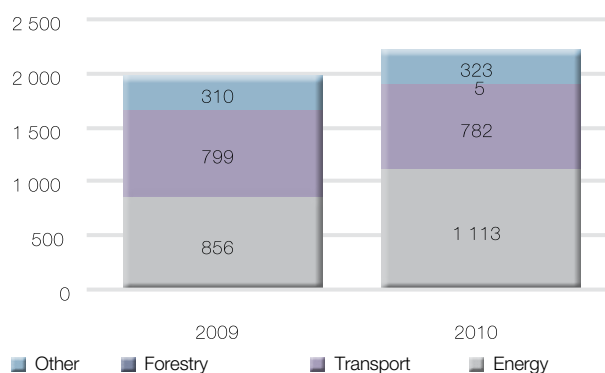
### Equity, in LTL million



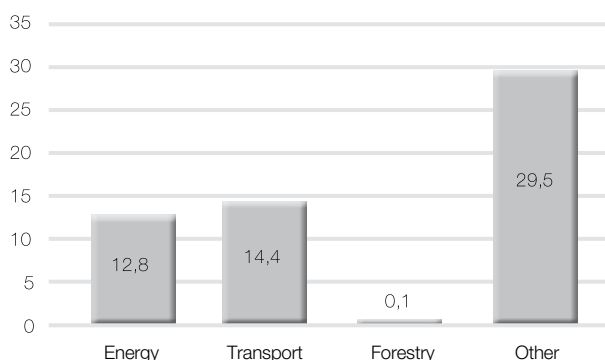
### Debt

Total liabilities of state-owned enterprises went up by 12.9 percent in 2010, reaching LTL2.2bn. The debt-equity ratio stood at 11.8 percent at the end of 2010, up from 10.7 percent one year ago. Leverage in the energy sector showed the steepest rise, compared to all other sectors, soaring by 30 percent during the year.

### Financial debt, in LTL million



### Financial leverage, percent



### Turnover

The aggregate turnover of state-owned enterprises ebbed by 0.8 percent in 2010, largely due to a 10 percent downside of turnover in the energy sector. The decline was caused by the closure of the Ignalina Nuclear Power Plant which posted a LTL597m turnover in 2009 and a mere LTL19.8m turnover in 2010. All other energy companies recorded a combined 6.9 percent rise in turnover over the year.

The energy sector retained its leading positions in terms of turnover in 2010. The Visaginas Nuclear Power Plant Group was by far the largest entity inside the sector with an aggregate turnover of LTL3.07bn which was up by 6 percent compared to the respective figure in 2010.

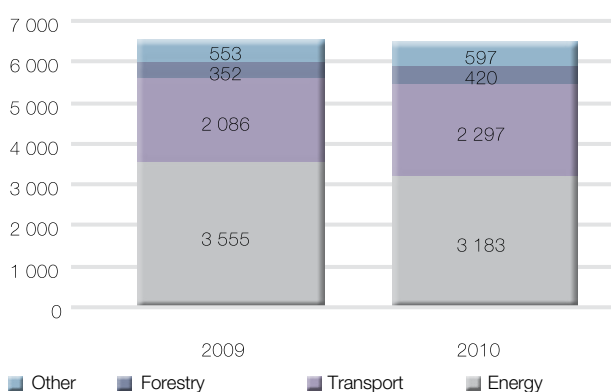
In terms of turnover, the transport sector expanded by 10 percent. Lithuanian Railways is the sector's largest company with sales of LTL1.4bn in 2010m, up by 18 percent from a year ago. Among the sector's biggest enterprises, Vilnius International Airport saw the sharpest decline in sales, by 30 percent, to LTL42.3m, followed by Lietuvos Paštas (Lithuanian Post) which reported a 13 percent decline, to LTL174m.

The aggregate turnover in the forestry sector went up by 19 percent, to LTL420m, while the overall sales of companies outside the three major sectors stood at LTL597m, 8 percent higher than in 2009.

State enterprises reported a combined turnover of LTL1.4bn, while that of public companies stood at LTL5.1bn in 2010.

Asset turnover, which measures the ratio of turnover against assets, of state enterprises was almost three times lower compared to that of public companies, at 0.1 and 0.28 respectively.

Turnover, in LTL million



### EBIT

The aggregate EBIT of all state-owned enterprises was LTL59.8m in 2010, a remarkable improvement compared to 2009 when the overall result was a loss of LTL334m, excluding the losses incurred by the closure of the Ignalina Nuclear Power Plant. The aggregate EBIT margin stood at 0.9 percent in 2010.

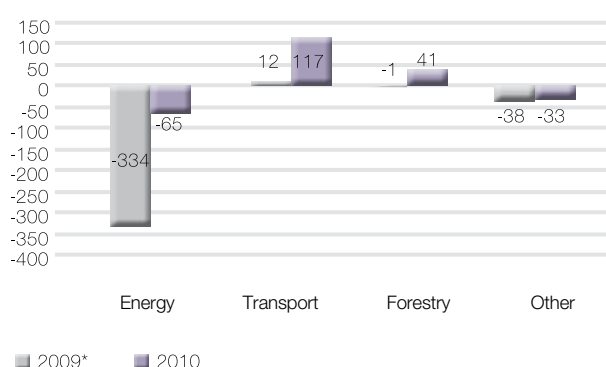
The energy sector posted a negative EBIT for the second year in a row due to the losses of the Ignalina Nuclear Power Plant which amounted to LTL77.7m in 2010. In addition to that, assets owned by LESTO and Litgrid tend to depreciate which means that the reported costs of amortisation may be higher than actual. In turn, this means that the reported results of the energy sector are worse than actual.

Lietuvos Dujos (Lithuanian Gas), 17 percent owned by the State, was excluded from EBIT calculation inside the energy sector. However, the company's LTL148m operating profit earned in 2010 was included in the calculation of aggregate financial results of all state-owned enterprises.

In the transport sector, EBIT went up almost ten-fold in 2010 to reach LTL116.9m. Lithuanian Railways has contributed the lion's share of operating profits (LTL85.6m), followed by the Klaipėda State Seaport Authority (LTL62m). On the other hand, Lietuvos Jūrų Laivininkystė (Lithuanian Shipping Company), reported the biggest loss in the sector, of LTL22.6m.

The country's forestry enterprises earned an aggregate LTL40.8m in profits after reporting a LTL1.6m loss in 2009. Among other companies, Housing Mortgage Insurance accumulated by far the biggest loss of LTL40m, while Regitra posted the biggest EBIT value of LTL9.9m.

EBIT, in LTL million



\* The 2009 data excludes write-offs made after the closure of the Ignalina Nuclear Power Plant.

## Return on equity

State-owned enterprises posted a positive return on equity – although of a mere 0.8 percent. Regardless, this represents a slight improvement from 2009 when the aggregate ROE was 0.2 percent. The forestry sector remained best-performing in his respect, its ROE stood at 2.1 percent in 2010.

To calculate the ROE ratios, equity for the transport sector was reduced by deducting the value of roads (LTL6.2bn), while the value of forests has been added to the equity of the forestry sector.

Three relatively small companies, Klaipėdos Žuvininkystės Produktų Aukcionas (Klaipėda Fish Auction), Geležinkelių Projektavimas (Railway Design), and Regitra posted highest ROE of 50 percent, 22 percent and 21 percent respectively.

The largest state-owned enterprises reported positive, yet minute ROE, e.g. 2.6 percent for Lithuanian Railways and 0.2 percent for Visaginas Nuclear Power Plant.

### ROE, percent

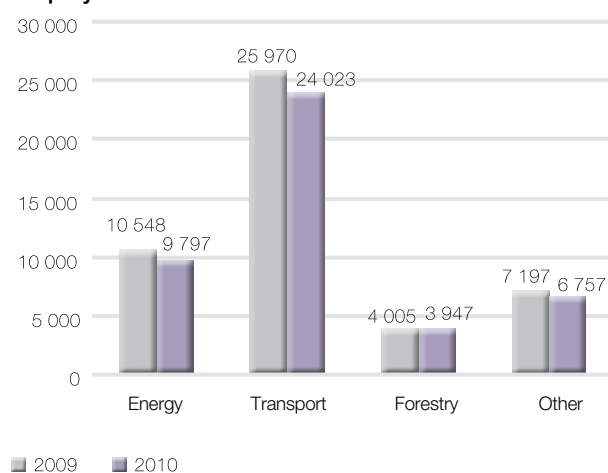


\* The 2009 data excludes write-offs made after the closure of the Ignalina Nuclear Power Plant.

## Employees

The total number of employees at state-owned enterprises decreased by 6.7 percent in 2010, with the transport sector leading the trend with a loss of 7.5 percent of employees. Lithuanian Post took first position among companies reporting the largest number of lay-offs with a reduction in its workforce of 12.6 percent - down to 6,870. The number of employees at the Visaginas Nuclear Power Plant fell by 4.4 percent, to 5,892, while that at Lithuanian Railways was down by 1.4 percent, to 11,632. Forestry enterprises lost 1.2 percent of their workforce, which stood at 3,811 at the end of 2010.

### Employees



## Operating efficiency and shareholder return

Most state-owned enterprises undertake both commercial and non-commercial functions which must be clearly separated. This has yet to be accomplished and is the reason for difficulties in the evaluation of changes in the efficiency of the entire portfolio. Moreover, this makes the comparison of state-owned enterprises and private companies problematic.

To make the assessment of efficiency more objective, operations of several of the largest state-owned enterprises have been outlined separately, together with the indicators of their efficacy. The table below presents several key financial ratios for 2009 and 2010.

	All SOEs*		Transport		Other		Energy*		Forestry	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Earnings per employee	137 187	145 916	80 341	95 604	76 823	88 314	337 047	324 906	87 890	106 493
Change		6.4 %		19.0 %		15.0 %		-3.6 %		21.2 %
Assets per employee	598 079	661 763	293 749	332 423	501 304	595 059	1 303 286	1 413 137	888 065	915 493
Change		10.6 %		13.2 %		18.7 %		8.4 %		3.1 %
Operating costs, LTL thous.	1 333 866	1 365 575	347 274	367 783	143 363	139 686	656 383	636 055	186 845	222 050
Change		2.4 %		5.9 %		-2.6 %		-3.1 %		18.8 %
Direct and indirect payments to state, LTL thous.	95 074	155 700	28 785	70 171	7 265	10 468	33 747	32 600	25 278	42 462
Change		63.8 %		143.8 %		44.1 %		-3.4 %		68.0 %
Dividends, LTL thous.	41 961	86 189	16 243	57 728	3 379	7 219	22 340	21 241	0	0
Property tax, LTL thous.	32 751	31 934	12 542	12 443	3 886	3 248	11 407	11 358	4 916	4 885
Raw material tax, LTL thous.	20 362	37 577	0	0	0	0	0	0	20 362	37 577
Asset turnover	0.23	0.22	0.27	0.29	0.15	0.15	0.26	0.23	0.10	0.12
Change		-3.9 %		5.2 %		-3.2 %		-11.1 %		17.5 %
D/E	10.7 %	11.8 %	16.0 %	14.4 %	29.1 %	29.5 %	9.7 %	12.8 %	0.1 %	0.1 %
ROCE	-1.4 %	0.6 %	0.4 %	2.1 %	-2.5 %	-2.1 %	-3.1 %	-0.5 %	0.7 %	2.3 %
ROE	0.2 %	0.8 %	0.4 %	1.9 %	-2.7 %	-2.0 %	0.2 %	-0.1 %	0.7 %	2.1 %
EBIT margin	-5.1 %	0.9 %	0.6 %	5.1 %	-6.9 %	-5.5 %	-8.6 %	-2.0 %	-0.4 %	9.7 %
EBITDA margin	17.2 %	22.2 %	24.0 %	27.1 %	5.3 %	5.3 %	16.0 %	22.6 %	8.4 %	16.9 %

\* Write-offs made after the closure of the Ignalina Nuclear Power Plant were deducted from the indices for 2009.

Operating expenses in the energy sector fell by LTL20m, or 3 percent, compared to the respective figure in 2009 – down to LTL636 m. The closure of the Ignalina Nuclear Power Plant, which helped to reduce the operating expenses of the sector by LTL65m, was the most important single factor behind the positive trend.

The overall revenue of the Visaginas Nuclear Power Plant (VNPP), the group in charge of building a new nuclear facility, is largely dependent on fixed costs of the group's companies. Consequently, growing efficiency and declining fixed costs lead to lower electricity prices, as much as they depend on the operating efficiency of those companies. However, if the price of imported electricity grows, the tariff for consumers may also go up, despite higher operating efficiency. Hence, changes in operating efficiency can be evaluated, at least partially, by taking into account the operating expenses of an enterprise. This method does not allow assessment of operating efficiency for all aspects. However, it does serve as a comparatively reliable indicator.

The overall operating expenses of the VNPP increased by LTL42m in 2010, to reach LTL547m. The negative change occurred largely due to losses incurred due to the reappraisal of pollution permits and higher provisions for used pollution permits by Lietuvos Elektrinė (Lithuanian Power Plant). Without extraordinary expenses, overall expenses at the VNPP remained unchanged which points to the fact that the group's operating efficiency has not improved, as much as operating expenses are concerned.

In the **energy sector**, the assessment of operating efficiency at enterprises is problematic due to two main reasons. The assets of three companies, LESTO, Litgrid, and Lietuvos Energija (Lithuanian Energy), have signs of depreciation which means that their reported expenses of this kind can be higher than the actual expenses. Consequently, the sector's overall results may be better than the reported figures.

It must be noted that Litgrid, as a separate company, started its operations on the 16th of November 2010 and could not present financial data covering the whole year. Naturally, the lack of information makes the assessment of its effectiveness very complicated.

There are a number of examples abroad demonstrating that companies operating in the energy sector can work profitably while financing the major part of their assets with long-term loans rather than equity.

	Elering	Fingrid	SEPS	Statnett
ROE, percent	9	8.7	12.9	31.1
Equity and asset ratio	0.38	0.28	0.51	0.35

Source: corporate annual reports, 2010

The aggregate operating profit of 42 **forestry enterprises**, calculated per one cubic metre of timber sold less property and raw materials taxes, stood at an average of almost LTL25, compared to just LTL7 in 2009. The EBIT margin of those companies was 20 percent in 2010, or almost three times higher than a year ago (7 percent). On the average, the most effective forestry companies report operating profit margins of 35 percent to 45 percent earning up to LTL45 per one cubic metre of timber sold. It is important to note that all Lithuanian forestry enterprises must perform certain non-commercial functions alongside their commercial activity. The non-commercial functions add to the cost side, but generate no revenue. This means that the elimination of expenses related to the non-commercial functions would slightly improve the aggregate financial results of forestry enterprises.

**Lithuanian Railways** was one of the companies to report the steepest rise in nominal operating expenses which went up by LTL23.6m in 2010 to LTL151.7m, primarily due to a broader overall scope of operations and higher electricity and fuel prices. The company's expenses, less the increase of oil prices, per 1,000 ton-kilometres of transported freight remained virtually unchanged from 2009, at LTL78.5. This indicator has been rising steadily, at an average of 6.7 percent a year, from 2004 through 2008 standing at LTL63.8 in 2004 and peaking at LTL82.4 in 2008. It was only in 2009 that expenses per 1,000 ton-kilometres of freight decreased by 4.6 percent, to LTL78.6. The freight transportation tariffs set by Lithuanian Railways are among the lowest throughout Europe, while the volume of freight per one kilometre of railways is one of the highest.

#### Lithuanian Railways: expenses in LTL per 1,000 ton-kilometres

2004	2005	2006	2007	2008	2009	2010*
63.8	66.1	70.5	72.8	82.4	78.6	78.5

\*Ignoring rise in oil prices.

Source: Lithuanian Railways, 2011

The railway load in Lithuania is lower than in Latvia, but higher compared to that in Estonia.

	Lietuva	Latvija	Estija
Railways, in km	1 767.6	1 896.9	968
Freight turnover, in million ton-kilometres	13 431	17 179	6 638
Railway load, in million ton-kilometres per kilometre	7.60	9.06	6.86

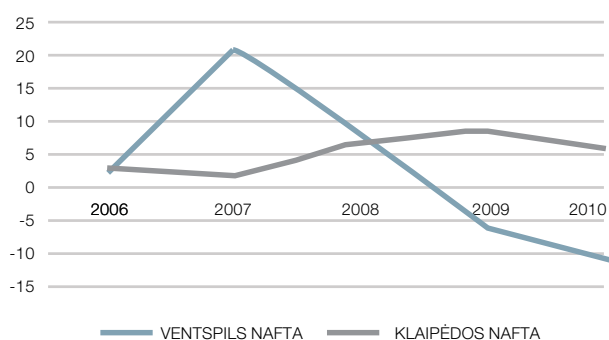
Source: Lithuanian, Latvian and Estonian railway companies, 2011

<sup>1</sup> Net profit calculated on an assumption that forestry companies do not pay tax on raw materials.

**Klaipėda Oil** stood in the forefront of companies in the energy sector in terms of a relative rise in operating expenses, which more than tripled from 2009, to reach LTL17m. The increase was caused mainly by a revaluation of fixed assets which lost LTL8.6m in value. Higher prices for energy resources and railway transportation added almost LTL3m to the higher costs.

In terms of efficiency, Klaipėda Oil is comparable to similar companies operating in neighbouring countries. Ventspils Nafta, based in the Latvian seaport of Ventspils, provides oil handling and transportation services. The group owns Ventspils Nafta Termināls (Ventspils Oil Terminal), a direct competitor to Klaipėda Oil. In terms of profitability, the Lithuanian company is ahead of its Latvian counterpart. The average five-year, 2006 through 2010, ROE figure for Klaipėda oil stands at 5.4 percent compared to 3.1 percent for Ventspils Nafta. The Lithuanian company also outpaced its Latvian competitor by several other key indices, such as return on assets and asset turnover.

### ROE comparison



Source: Infinansial Analyst, 2011

On the other hand, the analysis of Klaipėdos Nafta's cost structure leads to the conclusion that the rise in the company's efficiency, reflected in decreasing costs per one ton of oil handled less asset depreciation, recorded from 2007 through 2009, did not prove sustainable. In 2010 alone, this cost indicator went up by 10.5 percent, to LTL10.88.

### Costs per ton of oil handled

	2006	2007	2008	2009	2010
Net oil product handling, in thousand tons	5.509	5.403	8.213	7.660	7.922
Costs, in LTL thousand	54.278	65.968	86.110	75.436	86.167
Costs per ton handled, in LTL	9.85	12.21	10.48	9.85	10.88

Source: Klaipėda Oil

However, both the operating efficiency and financial results of Klaipėdos Nafta have considerable room for improvement. The company is almost free from long-term financial liabilities; hence it is able to change its capital structure significantly, for example, by assuming long-term debt, which would increase return on equity for its shareholders. Vopak, one of the world's leading providers of services for storage and transportation of bulk liquids, posted a 42 percent leverage and a 20 percent return on equity in 2010.

**Lithuanian Post** reduced its operating expenses by LTL34.3m, to LTL45.8m, in 2010 mainly due to write-offs in the company's fixed assets by a total of LTL33.7m. This means that actual operating expenses remained on the same level in 2010 compared to the respective figure a year ago. It must be noted that the company's operating efficiency is very difficult to assess due to the hugely varied activities Lithuanian Post is involved in. In addition, the domestic market for universal post services will remain regulated by the state until 2013, which makes it difficult to find one or more indicators for the generalisation of the company's business or for its comparison to other companies in the same sector.

Lithuanian Post was one of few state-owned enterprises in 2010 to undertake strict measures aimed at the optimisation of its services. Those efforts have borne fruit as the company's total costs per one unit of service went down from LTL1.12 to LTL0.93 in one year alone. In terms of operating costs per one employee, Lithuanian Post reported a 20 percent improvement in 2010 with the figure standing at LTL27.3 thousand compared to LTL33.9 thousand one year ago.

	2008	2009 *	2010
Costs, in LTL thousand	263.459	237.122	187.267
Services, in thousands of units	262.160	211.821	202.437
Costs per service unit, in LTL	1.01	1.12	0.93

\* Less costs related to the depreciation of fixed assets.

Source: Lithuanian Post, 2011

## State-owned enterprises: a summary

Low return on equity points to the fact that state-owned enterprises are not always effective in utilising their assets. The enterprises must separate commercial and non-commercial operations in their financial reporting. In addition, they have to shed themselves of loss-making commercial operations and sell related property. The proceeds from these transactions should be transferred to the state budget.

Aggregate assets per one employee went up by 11 percent in 2010, to LTL662 thousand, while the respective indicator stood at just LTL144 thousand in the private sector. The huge, almost five-fold, discrepancy can be explained, at least partially, by the fact that most state-owned enterprises are infrastructure companies, which control valuable property. On the other hand, state-run enterprises must seek greater operating efficiency and better utilisation of their assets in order to achieve higher levels of return on equity.

Overall employee productivity improved in 2010, as the aggregate sales revenue per employee went up by 6.4 percent. In absolute figures, nominal sales revenue per employee stood at LTL146 thousand in 2010, up from LTL137 thousand a year ago. In this respect, state-owned enterprises are slightly ahead of the average employee productivity indicator, which amounted to LTL133 thousand per employee in Lithuania in 2010.

Asset turnover of all state-owned enterprises ebbed from 0.23 to 0.22 in 2010. However, the transport sector reported an 18 percent increase in asset turnover (to 0.12) while the combined results of 42 forestry enterprises revealed a 5 percent improvement (to 0.29). Measured by asset turnover, the energy sector was the biggest loser posting an 11 percent fall (to 0.23). All in all, state-owned enterprises lagged well behind the country's average of 1.1.

It is impossible to assess the efficiency of the entire portfolio of state-owned enterprises, thus individual companies are valued separately. However, even this option leads to certain difficulties because very few companies are comparable using objective criteria. Firstly, discrepancies occur due to the non-commercial functions that many state-owned enterprises undertake. Additionally, state-owned enterprises often hold mo-

nopoly positions in the market. Therefore, their financial and operating results depend on market regulation by the State. Moreover, several companies presented financial reports that are not entirely objective. Assets of the VNPP, for instance, are likely to be depreciated, which means that their asset amortisation is higher than reported and the company generated a loss despite positive operating cash flow.

Though the aggregate financial results of state-owned enterprises were better in 2010, their overall operating efficiency did not show many signs of improvement. The average return on equity, calculated by adding raw materials and property tax (less profit taxes) to net profits and dividing the sum by the whole value of state-owned enterprises, was a mere 1 percent in 2010. That is five times less compared to the state's average long-term borrowing costs, which stand at 5 percent. Thus, by investing directly in state-owned enterprises, the state currently cannot expect a return, which would at least cover its borrowing costs.

According to the Department of Statistics, the average annual return on equity in Lithuania, including all private and public companies, amounted to 8.7 percent for the period from 2005 through 2010. By applying this indicator to state-owned enterprises, which control LTL14bn worth of assets, their theoretical expected net profit would stand at LTL1.22bn for the year 2010.

The actual aggregate profit earned by state-owned enterprises in 2010, which combines net profits and taxes for property and raw materials less profit taxes, amounted to LTL150m. The huge gap between this figure and the theoretical expected net profit is due firstly to the non-commercial functions that the enterprises perform. As a rule, non-commercial services are loss-making for all state-owned enterprises.

It is extremely important to set apart commercial and non-commercial operations, as well as related financial reporting, in order to form a basis for a more objective evaluation of non-commercial functions performed by state-owned enterprises. The Lithuanian Government has already taken the first steps in that direction.



# ENERGY

## Overview

State-owned energy enterprises carried our fundamental reforms in 2010. In this respect, the energy sector finds itself in exclusive conditions compared to other sectors of the economy which involve state-owned enterprises and other public organisations.

The following overview of the energy sector covers important facts and developments related directly to the companies operating in the segments of natural gas supply as well as power production and distribution. A number of heat production and water supply companies have been omitted as they are under the juris-

diction of municipalities rather than ministries and the central Government.

By launching the large-scale restructuring of the energy sector, the Government pursues two key long-term objectives:

- to withdraw the national energy system from isolation by integrating it into European Union's common markets of natural gas and power;
- to increase the operating and management efficiency of state-owned enterprises in the energy sector.

### Largest state-owned enterprises in the energy sector

Company	Area of operation	Net turnover in 2010, LTL million	Assets in 2010, LTL million	Number of employees	Interest owned by the state *
Visaginas Nuclear Power Plant Group, UAB **	Holding company which controls state-owned energy enterprises. Responsible for the construction of the new power plant and the decommissioning of the Ignalina Nuclear Power Plant.	3 072.4	11 505.0	5 892	100.0 %
Lietuvos Energija Group, AB	Power generation and wholesale trade.	1 277	3661.5	946	97.5 %
Litgrid Group, AB	Operator of the national power transmission network and administrator of trade on the National Power Exchange.	90.3	2 361.4	618	97.5 %
LESTO Group, AB ***	Operator of the national power distribution network and public supplier of power.	2 423.3	5 429.6	3 696	82.6 %
Technology and Innovation Centre, UAB	Delivers innovation, know-how, competence management, IT and other services to state-owned energy enterprises.	8.2	49.5	220	87.8 %
NT Valdos, UAB	Manages industrial and office property and cars owned by state-owned energy enterprises.	9.1	316.2	28	90.1 %
Lithuanian Gas Group, AB	Transportation, distribution and supply of natural gas.	1 751.6	2709.6	1 750	17.7 %

\* Directly and indirectly

\*\* Includes data of the companies it controls: Lietuvos Energija AB, Litgrid AB, LESTO AB, Technology and Innovation Centre UAB, and NT Valdos UAB.

\*\*\* Aggregate data of two former power grid operators.

## Electricity prices and consumption

### Electricity prices

Several variables, such as prices of production, transmission, distribution, and public interest services, have an impact on the final price consumers pay for electricity. Power transmission and distribution prices are regulated by the National Control Commission for Prices and Energy (NCCPE).

The estimated average electricity price for households is to stand at 44.33 ct/kWh in 2011. The purchase price of 16 ct/kWh, set by Lietuvos Energija (Lithuanian Energy) and Lietuvos Elektrinė (Lithuanian Power Plant), constitutes the largest portion of the final price.

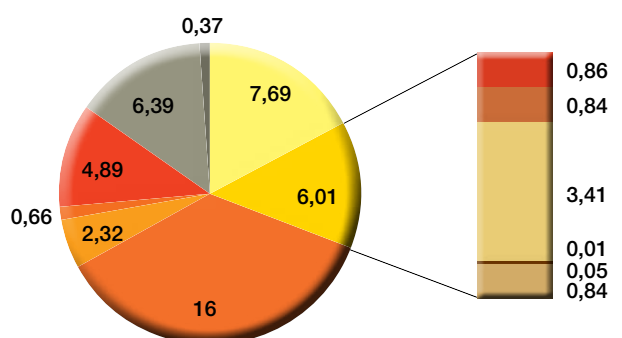
The electricity purchase price stood at 15.50 ct/kWh in 2010, fractionally lower than the estimated price in 2011. The power transmission price is to decrease by 13 percent in 2011, to 2.32 ct/kWh from 2.67 ct/kWh in 2010.

The price of systemic services went down by 11 percent, to 0.66 ct/kWh from 0.74 ct/kWh in 2010. The price of public

interest services rose by 1.28 ct/kWh in 2011. An almost two-fold increase of the amount of power produced using renewable resources, growing demand of funding for infrastructure investment and modernisation, more than two-fold rise in power generation costs at thermal stations, and allocations to strategic projects are the main reasons behind the increase in the price of public interest services.

The set upper limit of price for power distribution via medium-voltage grids is to stand at 4.89 ct/kWh in 2011 while the price of power distribution using low-voltage lines will be 6.39 ct/kWh. The prices went down by 7.9 percent and 13.2 percent compared to the 2010 price limit averages of 5.32 ct/kWh and 7.36 ct/kWh respectively. The reform of the energy sector, which enabled LESTO, the newly established power distribution company, to cut costs is the main reason of the price decrease.

### Structure of the average electricity price in 2011, in cents per kWh



- Purchase price
  - Transmission using high-voltage network
  - Systemic services
  - Distribution using medium-voltage network
  - Distribution using low-voltage network
  - Public supply price
  - VAT
- 
- Public interest service price (PISP) in renewable sources
  - PISP in thermal power plants
  - PISP in Lietuvos Elektrinė, AB
  - Balancing of renewable sources
  - Connection of renewable sources to grids
  - Strategic projects

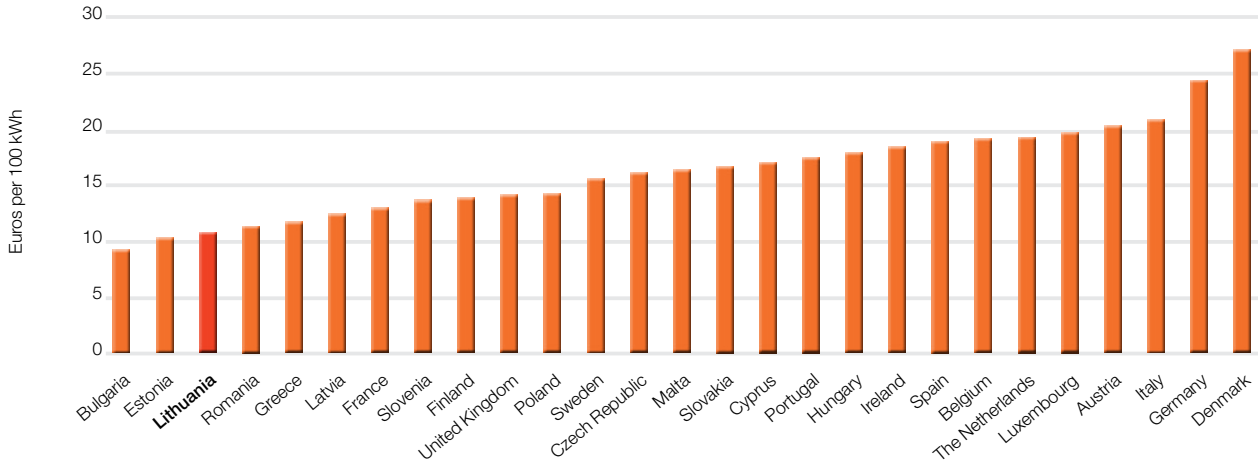
Source: NCCPE

### Electricity prices in the EU

Measured in absolute figures, prices for electricity in Lithuania are low compared to those in the European Union. However, if the purchasing power is taken into account, Lithuania is ahead

of Finland, Estonia, Ireland and many other European countries in terms of power price level.

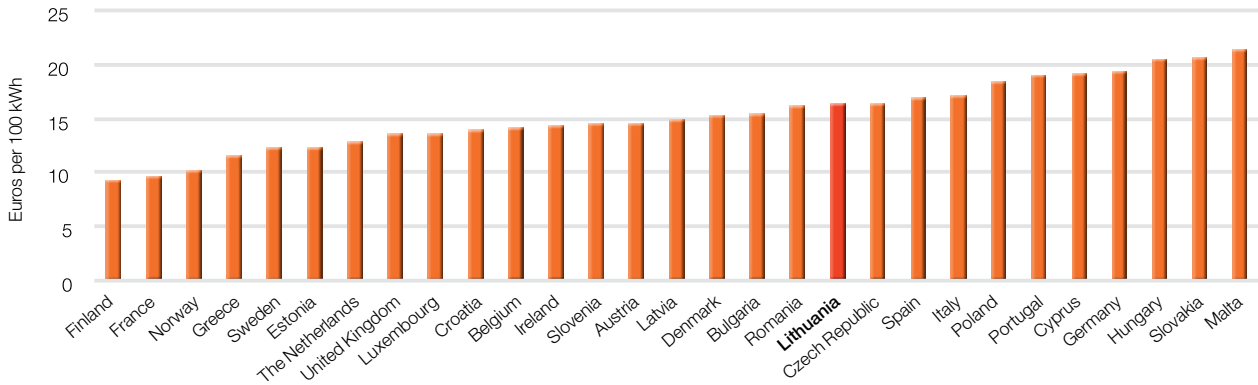
Electricity prices for EU residents in January 2011



\*Annual power consumption of 3,500 kWh

Based on data from the European Energy Portal ([www.energy.eu](http://www.energy.eu))

Electricity prices, excl. VAT, taking into account purchasing power, second half of 2010



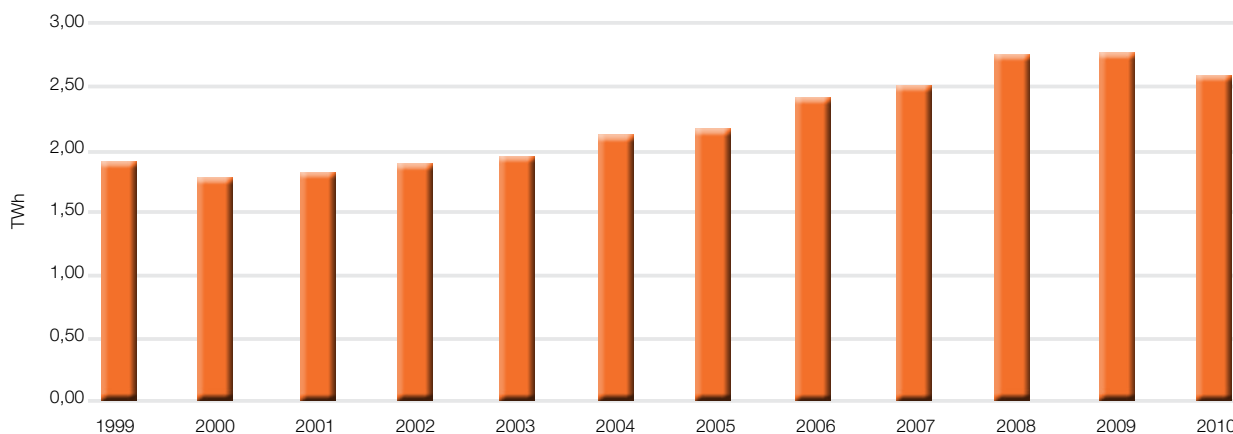
Source: Eurostat, 2011

## Trends of electricity consumption

A total of 9.22 TWh of electricity was consumed in Lithuania in 2010, a miniature rise of 0.66 percent compared to the consumption level in 2009. Household consumption de-

creased by 5.8 percent to 2.59 TWh over the year. Despite that, the overall household consumption of electricity was 46 percent higher in 2010 compared to that in 2000.

Electricity demand by Lithuanian households, 1999 through 2010



Source: NCCPE

## Market regulation

The National Control Commission for Prices and Energy (NCCPE) sets principles and prepares methodology according to which electricity prices are calculated, sets upper price limits, controls the implementation of prices and tariffs, sets connection fees for new units in the power supply and consumption network, and regulates purchase prices of electricity generated using renewable resources. While implementing these functions, NCCPE employs the methodology which covers prices of publicly supplied electricity, public interest services and upper price limits.

The final electricity price for consumers is calculated by summing several variables, such as prices of power generation and distribution, which include systemic and public interest services and depend on the supply source. The price is set using the cost principle, i. e. by adding operating costs, investment and profit margin and comparing the sum with the estimated turnover. Power generation costs constitute the biggest part of the final price for electricity. Only largest producers, which control more than 25 percent of the electricity market, operate under the fixed power generation price set by the NCCPE.

New legislation prepared by the Ministry of Energy is currently debated by the parliament to merge the NCCPE, the State Energy Inspectorate and the Communications Regula-

tory Authority to create a new institution, the Infrastructure Regulatory Authority (IRA). It will perform regulatory functions in the sectors of communication, post and courier services, transport, electricity, natural gas, heat generation and supply, and water supply and sewerage. The merger of the three organisations will bring several benefits:

1. a clearer and more transparent network of services will be established for businesses;
2. the single window principle and common rules of tariff-setting will be introduced;
3. administration costs will be used more effectively;
4. professional competence and skills will be used more efficiently.

IRA will be accountable to the Parliament, its decisions will be mandatory and revocable through litigation only.

To ensure proper funding of the new institution, a fee will be introduced for all companies operating in the markets regulated by the IRA. The fee, which will depend on business activity the company is involved in, is to stand at about 0.2–0.3 percent of total revenue from the regulated operations. Currently the Communication Regulatory Authority is financed using the latter method, while the other two institutions are funded from the state budget.

## Restructuring the energy sector

The reorganisation of the energy sector, which was launched in 2009 following the takeover of the private interest by the state in LEO LT, the energy company established to implement strategic energy projects, was effectively completed by the end of 2010. The reshuffle led to the creation of the Visaginas Nuclear Power Station, a 100 percent state-owned group which took over the control of all largest energy companies in Lithuania. Apart from that, four interconnected blocks have been formed to encompass different types of energy companies operating in four sub-sectors, such as power generation, transmission, distribution, and power grid servicing. This type of structure corresponds to the requirements set in the EU's Third Energy Package as well as to the principles of effective management.

### Power generation

The block of power generation, formed at the end of 2010, includes three power facilities, Kaunas Hydro Power Station, Kruonis Hydro-accumulative Power Station and the Lithuanian Power Station in Elektrėnai. Litgrid, the newly established company, took over assets and liabilities related to power transmission operations. The power generation block concentrates production facilities and takes advantage of the economy of scale thus ensuring proper financial strength of the companies.

Following the decommissioning of the Ignalina Nuclear Power Plant at the end of 2009, power generation went up by 27.5 percent in Lithuania in 2010. The Lithuanian Power Station in Elektrėnai became the country's largest electricity producer. The company launched the construction of a new 445

megawatt combined-cycle power generation unit which will run on natural gas and is due to start production in September 2012, in line with the project schedule. The facility will be fitted with more efficient equipment and technologies that use 30 percent less gas in power production. Despite that, the price of natural gas will be the decisive factor for the eventual price of power generated in Elektrėnai.

### Transmission and ir wholesale

The power transmission block, which was created in early 2011, comprises Litgrid, the grid operator, and BaltPool, the operator of the power exchange. Litgrid, which took over part of assets and liabilities from Lietuvos Energija, manages and supervises high-voltage power transmission network ensuring stable operation of the entire power supply system in Lithuania. BaltPool, as an operator of the Lithuanian Power Exchange, is in charge of organization and management of electricity trade and supervision of bilateral contracts between power buyers and suppliers.

After the closure of the Ignalina Nuclear Power Plant at the end of 2009, BaltPool had an obligation to ensure competitive wholesale trade in power in Lithuania in order to prevent huge rise in electricity prices for end-users. The goal has been reached as the power purchase price stood between 15 and 16 ct/kWh in 2010. Although this level was roughly two times higher compared to the average power purchase price in 2009, the final price for end-users stood considerably lower than the estimated price before the decommissioning of the INPP.

Structure of power sales on the National Power Exchange in 2010, percent



Source: NCCPE, 2010

Lithuania imported 61 percent of power it consumed in 2010, compared to just 5.5 percent in 2009. A total of 8.12 TWh of electricity was traded through the Lithuanian Power Exchange in 2010, part of it was used inside the country and the rest was exported. All in all, 11.69 TWh of electricity was consumed in Lithuania in 2010.

The trend remained virtually unchanged in the first quarter of 2011 as 63 percent of all electricity consumed in the country was purchased through the Lithuanian Power Ex-

change. The average price of traded electricity stood at about 16 ct/kWh both in 2010 and in the first quarter of 2011.

The number of active traders in the market went up from 15 to 20, however, the trade was largely dominated by just two sellers, Lietuvos Energija (Lithuanian Energy) and Inter Rao Lietuva, a subsidiary of the Russian conglomerate. They sold 40 percent of electricity each in the open market which was hugely concentrated in 2010 precisely because of the dominance of those two companies.

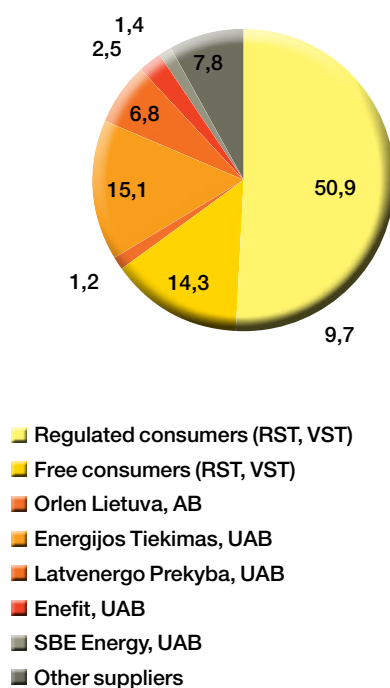
## Distribution

As a part of the restructuring of the energy sector, two former power grid operators in charge of eastern and western part of the country were merged into a single company, LESTO. The new entity now operates low- and medium-voltage power grids, and acts as a public supplier of power. The Government believes that the reshuffle of the sector will lead to greater transparency and efficiency of operations, primarily due to the effect of the economy of scale.

The Market Development Plan adopted by the Govern-

ment allows larger users, who have the installed power capacity of at least 100 kilowatt, choosing independent suppliers of power. In 2010, when the minimum requirement of installed power capacity stood at 400 kilowatt, roughly half of all country's customers, the so-called "free users", could choose suppliers of electricity, and about two-thirds of them did so. In 2010, "free users" consumed about 35 percent of all electricity in the country.

Structure of retail power market in 2010, percent



Source: NCCPE, 2010)

The number of independent power suppliers was rising steadily in 2010 in Lithuania. At the end of the year, they sold more than 43 percent of electricity in the retail market while the average price of the electricity was 0.81 ct/kWh lower than that paid by the free users who purchased electricity from grid operators. Energijos Tiekimas (Power Supply), a company of the Lithuanian Energy group, was a leading supplier in the retail market with a market share of 17 percent at the end of 2010.

## Service and property management companies

Inside the energy sector, a separate block unites property management firms as well as know-how and competence centres. All of them are controlled by the state, directly or indirectly, while the largest ones are the Technology and Innovation Centre, and NT Valdos. The former provides a scope of professional services to energy companies, which include innovation and know-how management, information technology maintenance, and other. The latter manages industrial and administrative property as well as cars that belong to largest energy enterprises.

## Sectoral overview: natural gas

The European Commission has urged Lithuania to implement the Third Energy Package which covers, apart from the rest, a reform of the natural gas sector in line with the requirements set in the Natural Gas Directive. Since early 2010, the Ministry of Energy has been busy preparing a number of projects aimed at restructuring of the natural gas sector and creation of a new natural gas supply infrastructure.

According to the Ministry of Energy, the main objectives of the reform are:

- create a new model of the gas sector ensuring its compliance to the requirements of the directives of the European Union regarding the implementation of the Third Energy Package;
- split the monopoly by separating gas transportation via magistral pipelines, gas distribution and gas supply to end-users;
- implement a proper control over Lietuvos Dujos (Lithuanian Gas) so that this company, partly owned by the state, would operate observing rights and legal interests of all shareholders, including the state, by setting fair and economically viable price of natural gas;
- pass legal documents that help implement the reform of the natural gas sector.

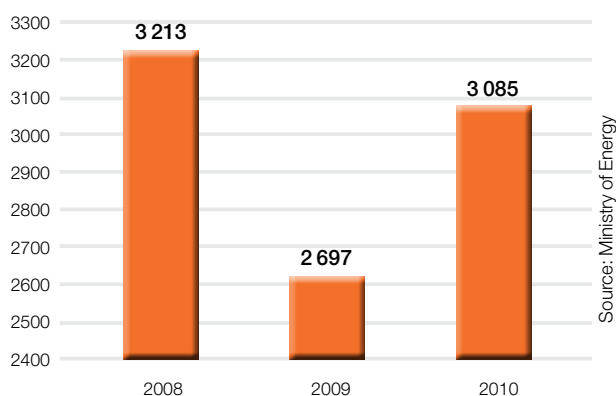
### Natural gas prices for households

The price which households pay for natural gas they use splits into two constituents, a fixed monthly fee and a charge for every cubic meter of gas consumed. Household consumers form two groups depending on the amount of gas used; the first comprises households using less than 500 cubic meters of gas per year, while the second one includes households which consume more than 500 cubic meters of gas per year.

Consumers of the first group paid a fixed monthly fee of two litas per month in 2010, while the second group was charged a LTL14.05 fixed fee. For both groups, fixed fees declined frac-

Lithuanian companies and households consumed a total of 3.085 billion cubic meters of natural gas in 2010, according to the Ministry of Energy. The consumption rose by 14.4 percent compared to the level recorded in 2009. However, it was 4 percent lower compared to natural gas demand in 2008. Households used 200 million cubic meters of natural gas, a tiny fraction of less than 6.5 percent of all volume consumed in the country.

Consumption of natural gas in Lithuania, 2008 through 2010



tionally in the first half of 2011 as they stood at LTL1.95 and LTL13.81 respectively.

Gas prices per cubic meter showed more fluctuation, going up from LTL1.87 in the first half of 2010 to LTL2.15 in the second half of the year and retreating to LTL2.04 in the first half of 2011 for consumers in the first group. Likewise, users in the second group paid LTL1.29 per cubic meter in the first half of 2010, LTL1.56 in the second half of the year and LTL1.45 per cubic meter in the first half of 2011.

Gas import price is the most important single variable in de-

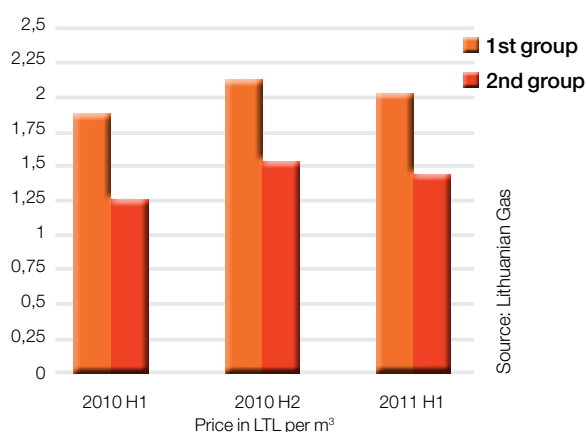
### Changeable portion of natural gas price from January 2011



termining the gas price per cubic meter. On the other hand, gas distribution price constitutes a larger portion of the per-cubic-meter price for consumers in the first group because gas supply costs remain almost unchanged irrespective of quantities of gas consumed.

Lithuanian Gas has raised the per-cubic-meter gas prices from the 1st of July 2011 to LTL2.33 for consumers in the first group and to LTL1.75 for users in the second group. The fixed fees remained unchanged though.

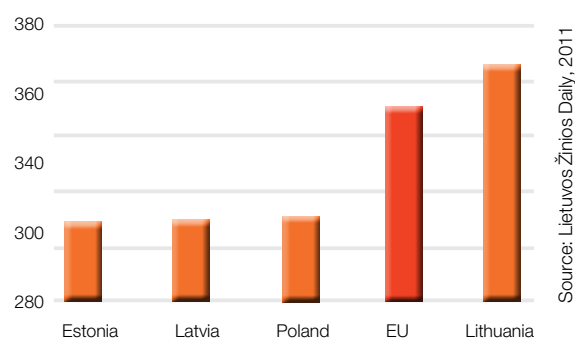
#### Price of natural gas in 2010 and 2011



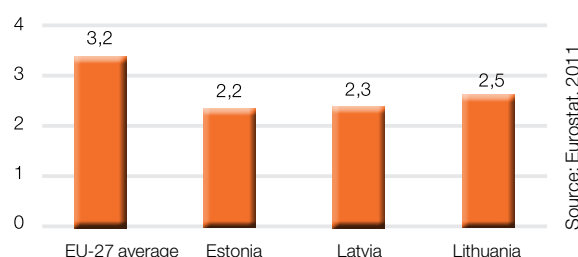
#### Gas prices in Lithuania and neighbouring countries

Lithuania pays one of the highest prices for natural gas it imports compared to other European Union countries. Nevertheless, the price that end users pay for natural gas is still some 20 percent lower than the average price for end users across the EU.

#### Prices for natural gas delivered by Gazprom, in USD per 1,000 m³



#### Prices of natural gas for end users in LTL per m³, (excl. taxes)



#### Financial and operating results

In LTL thousand	Energy companies, excl. Ignalina NPP	
	2009*	2010
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	3 555 209	3 182 973
Cost of goods sold	3 205 661	2 601 269
<b>Gross profit (loss)</b>	<b>349 547</b>	<b>571 074</b>
Gross profit margin	9,8 %	17,9 %
Operating cost	656 383	636 055
<b>Operating profit (loss)</b>	<b>-306 836</b>	<b>-64 981</b>
EBIT margin	-8,6 %	-2,0 %
<b>EBITDA</b>	<b>569 818</b>	<b>718 530</b>
EBITDA margin	16,0 %	22,6 %
<b>Net profit (loss)</b>	<b>11 035</b>	<b>-15 193</b>
Net profit margin	0,3 %	-0,5 %
<b>Minority interest</b>	<b>-145</b>	<b>4 183</b>
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>11 366 408</b>	<b>11 723 603</b>
Intangible assets	331 290	372 907
Tangible assets	10 524 173	10 900 834
Financial assets	202 599	239 229
Other fixed assets	308 346	210 633
<b>Current assets</b>	<b>2 380 784</b>	<b>2 120 337</b>
Inventories and prepaid expenses	226 885	298 629
Accounts receivable in one year	1 400 135	1 069 479
Other current assets	386 045	393 980
Cash and cash equivalents	367 719	358 249
<b>TOTAL ASSETS</b>	<b>13 747 192</b>	<b>13 843 941</b>

EQUITY AND LIABILITIES		
<b>Total equity</b>	<b>8 794 791</b>	<b>8 701 049</b>
Minority shareholder equity	904 596	803 787
<b>Subsidiaries</b>	<b>2 423 790</b>	<b>2 392 668</b>
<b>Liabilities</b>	<b>2 528 611</b>	<b>2 750 224</b>
Long-term liabilities	1 761 015	1 383 913
Short-term liabilities	767 597	1 366 310
Financial liabilities	855 771	1 113 109
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13 747 192</b>	<b>13 843 941</b>
<b>Key ratios</b>	<b>2009*</b>	<b>2010</b>
Debt to assets	64,0 %	62,9 %
Debt to equity	9,7 %	12,8 %
ROA**	0,2 %	0,0 %
ROCE**	-3,1 %	-0,5 %
ROE**	0,2 %	-0,1 %
<b>Other data</b>	<b>2009</b>	<b>2010</b>
Staff	10 548	9 797
<b>Investor return</b>	<b>33 747</b>	<b>32 600</b>
Dividends	22 340	21 241
Property tax	11 407	11 358

\* Data excludes write-offs by Ignalina Nuclear Plant.

\*\* Profitability ratios exclude taxes on property and raw materials deducted from operating costs.

Financial results of the Ignalina Nuclear Power Plant have a considerable impact on the overall results of the energy sector, hence a comparative data is provided with the INPP results excluded. The company, which stopped producing electricity at the end of 2009, only received revenue from heat generation in 2010. The value of the INPP's fixed assets plunged as well due to the decommissioning. The change in value has been reflected through operating costs which went down from LTL1.339bn in 2009 to LTL51.9m in 2010.

In addition to that, turnover fluctuations in the energy sector largely correlate to changes in prices for gas and other types of fuel. The profitability of the sector is influenced by market regulation, tariff-setting and periodic revaluation of assets.

Overall sales revenue of the sector's companies, excluding the INPP, rose by 6.9 percent in 2010 while EBITDA was 6.6 percent higher than a year ago. Despite that, net profits went down due to higher power generation costs and changes in tariff-setting policies. Return on equity and return on assets remain at very low levels throughout the sector.

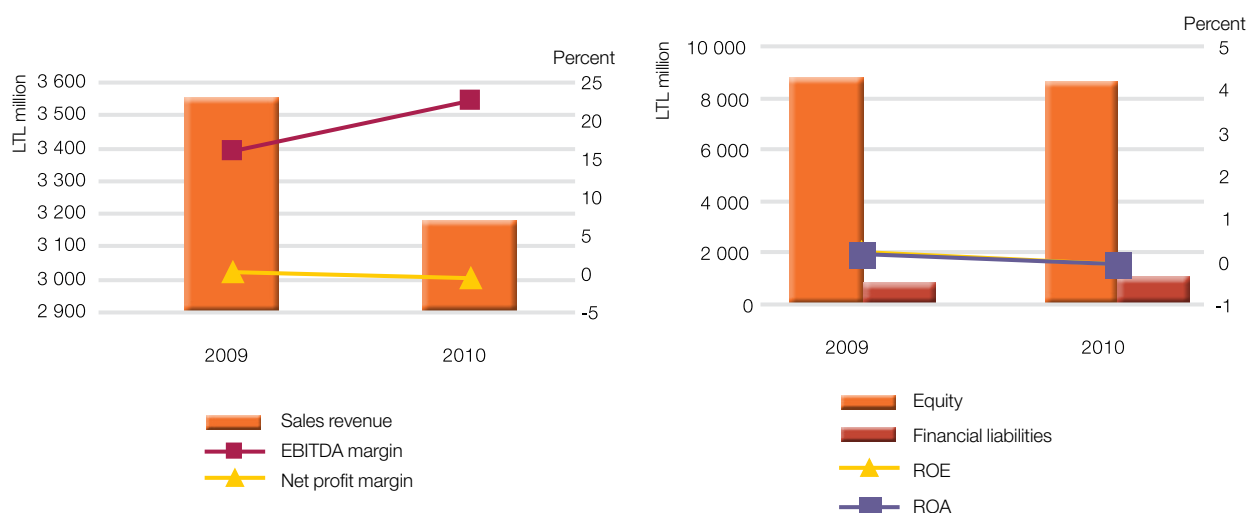
The aggregate value of the sector's fixed assets grew by

LTL357m in 2010, mostly due to large-scale projects under implementation by several companies.

The aggregate dividends in 2010 and 2009 include dividends paid by Lithuanian Gas for a 17.7 percent stake the State holds in the company. Besides, dividends paid by the Lithuanian Power Station in 2009 have been added to the overall figure because the State held a majority interest in the company directly back then.

Other two companies which paid dividends in 2009 and 2010, Lithuanian Energy and LESTO, are controlled by the State indirectly, through the Visaginas Nuclear Power Station. The latter has not paid any dividends, hence the dividends by Lithuanian Energy and LESTO are excluded from the total amount. Lithuanian Energy and LESTO gave away a total of LTL150.1m and LTL154.2m in dividends for the two years respectively.

Changes in net revenue, EBIT, net profit margin, equity, return on assets and return on equity for 2009 and 2010 are shown in the charts below.



## Strategic projects

All major objectives, projects and ways of their implementation related to the energy sector have been outlined in the National Energy Strategy which covers a period of almost forty years, to 2050.

## Electricity

### Decommissioning of the INPP

Lithuania has kept its pledge against the European Union to close the INPP by the end of 2009. Now it is vital to ensure safe and smooth decommissioning of the facility alongside secure disposal of radioactive waste. This requires the employment of modern technology and efficient use of funds allocated for the INPP decommissioning projects.

Nukem, the Russian-controlled company in charge of the decommissioning, lags behind the project schedule. However, proper measures to ensure reliable risk management have been taken as Lithuania works to foster the building of storages for waste radioactive fuel and make sure the budget and EU funds are used rationally.

### The new nuclear power station

Construction of a new nuclear facility in Visaginas is the largest single energy project the Government plans to implement by 2020 to ensure sufficient generation of power for domestic use and export. The project, valued at about LTL17.3bn, is to be financed with bank loans as well as with funds allocated by a strategic investor, regional partners from Poland, Latvia and Estonia, and the State. The project will be implemented through a newly established company, the Visaginas Nuclear Power Plant group.

The new facility will enhance the country's independence from foreign power suppliers while the export of power is to improve the nation's foreign trade balance. The new plant is to become an important supplier of power in the region and will play a positive role in bolstering Lithuanian economy by attracting foreign investment, creating new jobs and offering additional business opportunities, both directly and indirectly, to domestic companies.

In its conclusive review, the International Atomic Energy Agency has said that the building ground for the new nuclear power plant has been properly prepared for the construction.

### New power generation unit at the Lithuanian Power Station

A modern 455 MW combined-cycle turbine, which will run on natural gas, is being built at the Lithuanian Power Station in Elektrėnai. The LTL1.24bn project will increase the generating capacity of the Lithuanian power production system and enhance its reliability and exploitation readiness. Moreover, the new generation unit is expected to reduce the country's de-

pendence on imported power. The project is to be completed in 2012 according to schedule. Compared to the old generation units in Elektrėnai, the new facility will be much safer for the environment because it will use less natural gas. The project is financed via a syndicated loan issued by a consortium of local and foreign banks as well as Lithuanian Energy's own funds.

### Power links in Europe

The projects outlined below are carried out by Litgrid, the power grid operator.

#### Link to Sweden

The power transmission line between Lithuania and Sweden, NordBalt, will interconnect power grids in the two countries. The route of the 450-kilometre cable has already been confirmed by both sides and the analysis of the sea bed along its route has been completed. ABB, a Swedish provider of power and automation technologies, is to manufacture and install the cable and will supply two converter stations.

In February 2011, territory planning was accomplished in the areas earmarked for the project. Technical projects for the installation of the power cable and converter stations are to be prepared by the end of 2011. According to the NordBalt schedule, the exploitation of the new power link will begin in 2016.

#### Power bridge to Poland

LitPol Link, the power connection between Lithuania and Poland, is extremely important in terms of integration of the Lithuanian power supply and distribution system into the European network. The 1,000-megawatt transmission line will be built in two stages. By December 2015, it is to be put into operation in half-capacity while the completion of the project is set for 2020 when the link will reach its full capacity.

The LTL573m project is financed by Litgrid's own funds, bank loans and through a social service fee set in the power price for end-users. The LitPol Link, which will also receive funding from the European Union, will be built according to the requirements defined in two environmental studies. The project, however, has run into serious obstacles as some land owners, both in Lithuania and Poland, are not willing to accept the new power line being built across their land.

#### Distribution Station in Bitėnai

The 330-kilovolt power distribution station in Bitėnai, which was integrated into the Lithuanian power supply network at the end of 2010, ensures that power consumers in Western Lithuania receive electricity solely through national grid bypassing the Russia's Kaliningrad Region. The new distribution station has connected power distribution lines in the Lithuanian territory fostering the reliability of power supplies and safeguarding from supply disruptions in the Kaliningrad Region. The LTL16m project was financed by Litgrid.

## Use of renewable energy resources

Encouraging power generation from renewable resources is one of the key priorities of the national policies in the energy sector. The Government puts a particular emphasis on projects aimed at use of a biomass in co-generation power plants as well as wind energy. A number of new wind power plants are to be built in Lithuania by 2020 to offer a combined generation capacity of 500-megawatt. The exploitation of the country's potential for hydropower is another important direction of development. Overall, at least 20 percent of all power consumed in Lithuania will be generated using renewable resources by 2020, according to the National Energy Strategy.

## Natural gas segment

### The Third Energy Package in the gas sector

The reform of the natural gas sector in Lithuania is aimed at ensuring the compliance of its operational model to the requirements set by the EU directives. Diversification of gas supplies and, in the long term, reduction of gas consumption are the two principal objectives of the reform. In turn, the changes in the sector will diminish Lithuania's dependence on energy imports.

Several important gas projects have been named in the National Energy Strategy, such as building of a terminal for liquefied gas, the terminal's connection to the national network of magistral pipelines, construction of underground storage for natural gas, laying of a pipeline connection with Poland, supporting search for shale gas, and liberalisation of the gas market.

### New liquefied gas terminal

Building the terminal for liquefied gas imports is one of the priority projects in the gas sector as it will enable a diversification of gas supplies and will open door for Lithuania to the international natural gas market. In addition, it will play a positive role in the formation of the domestic natural gas market. The LTL1bn project will be implemented through Klaipėda Oil, the state-controlled company which already operates a terminal for import and export of oil products in the seaport of Klaipėda. The liquefied gas terminal will be built in the port area as well. The terminal is due to start operations in 2014, ac-

ording to the project schedule.

To expand the existing network of magistral pipelines, a new branch will be built. It will connect Klaipėda with Jurbarkas, a regional town 150 kilometers southeast of Klaipėda. The new pipeline will increase the capacity of the national gas transportation network also enabling direct deliveries of gas from and to the new terminal in Klaipėda.

### Underground natural gas storage

Construction of the country's first underground storage for natural gas is also among the most important projects in the sector. The new facility, with a storage capacity of one billion cubic meters, will be able to feed the country's needs for two months, according to the current consumption levels. The storage is planned in the north-western village of Syderiai. The location is considered safe in terms of seismic activity and has proved to be one of the best options in terms of its underground geological structure, international geophysical studies revealed. The storage will lie about 1500 meters below the surface.

### Liberalisation of the natural gas market

Currently the natural gas sector is unable to cope with one of its key problems, the total dependence on gas supplies from Russia, through the territory of Belarus. Consequently, gas supplies can not be diversified because the country has no alternatives in purchasing gas and no access to international natural gas markets.

In line with the requirements set in the Third Energy Package, gas supply and delivery operations will be separated in Lithuania. This will create a more competitive environment for suppliers and ensure fair prices for consumers while encouraging additional investment in the sector. Lithuania also plans to establish the Natural Gas Exchange in order to allow end users purchase gas from more than one supplier.

### New gas pipeline to Poland

In order to integrate Lithuania into European Union's natural gas networks and to end the country's isolation, Lithuanian Gas and Poland's OGP Gaz System mull over the project to interconnect Lithuanian and Polish gas pipeline networks. Business feasibility study is currently underway.

### Supporting search for shale gas

One of the reasons why the residents of Estonia enjoy lower electricity tariffs compared to these in Lithuania is that Estonia uses domestic resources, the shale gas, for power generation. Lithuania wants to follow the suit. This is why the National En-

ergy Strategy encourages the environmentally friendly search for and extraction of shale gas or its imports.

Largest projects in the energy sector are listed in the table below.

Project	Description	Estimated value
New nuclear power plant	Construction of the new nuclear power plant and its infrastructure	Up to LTL17.3 billion
NordBalt	Interconnection of power systems in Lithuania and Sweden	LTL763 million
LitPol Link	Interconnection of power systems in the Baltic States and Western Europe	LTL573 million
Power distribution station in Bitėnai	Integration of the 330 kV distribution station into the national power transmission network	LTL16 million
Liquefied natural gas terminal	Construction of the new terminal in the port of Klaipėda	LTL1 billion
Natural gas pipeline between Lithuania and Poland	Construction of a new natural gas pipeline to interconnect gas transmission networks in Lithuania and Poland	No data
Underground storage for natural gas	Building of the new storage which is to become an integral element of the national natural gas system	No data
New power unit at the Lithuanian Power Plant	Building of the new combined-cycle block which will run on natural gas	1,24 mlrd. litų

Total estimated value of all projects with preliminary valuation is LTL20.9 billion.

# FORESTRY



## Foreword

Forests cover 2.17 million hectares, or roughly a third of the country's total area, as of January 1, 2011. The State is the largest single owner of forests possessing almost 50 percent of all woodland, while private individuals and companies own 39 percent of all forests. The remaining 11 percent are forests reserved for restitution and other woodlands.

In 2010, forestry and related economic activity, such as wood processing, production of furniture etc, generated almost 4 percent of the overall added value in Lithuania.

Seeing forests as assets, especially the most valuable woodlands, it is important to take into account interests of all stakeholders. Owners of commercial forests, including the State, seek to receive maximum returns from commercial operations in the forests they possess. On the other hand, timber and other forest resources must be exploited sustainably so that all the country's residents could spend their leisure time in forests. Thirdly, a stable timber supply must be ensured for the domestic wood processing industry to enable it generate the

highest possible added value and sustain the number of people employed in the sector.

Organisations inside the forestry sector split into several groups, the first being 42 state-owned forest enterprises which, alongside private individuals and companies, plan and implement commercial activities, including logging and timber sales, in the forests they own. Logging is usually performed by private firms. Timber is purchased by wood processing companies or agents who eventually sell the Lithuanian timber to domestic and foreign customers.

Swedspan Girių Bizonas, the woodboard producer with LTL198.4m turnover in 2010, furniture makers Vilniaus Baldai (LTL197.2m) and Klaipėdos Mediena (LTL167.8m), and Boen Lietuva, which produces hardwood flooring (LTL189.6m), were among the largest consumers of the Lithuanian timber.

## Sector overview

### General information about forests in Lithuania

Of 2.17 million hectares of woodlands in Lithuania, pine and spruce cover 56 percent of the total area leaving 40 percent for softwood and 4 percent for hardwood. Other key indicators of the forestry sector are shown in the table below.

#### Key forestry indicators as of January 1, 2011

Forest area, million ha	2.17
Forests as percent of total area	33.2
Forest area per capita, ha	0.7
Overall volume of timber with bark, million m <sup>3</sup>	489.8
Average volume of timber, m <sup>3</sup> /ha	236.9
Annual increment in stands volume, m <sup>3</sup> /ha	8.0

Sources: Statistics Lithuania, State Forest Service

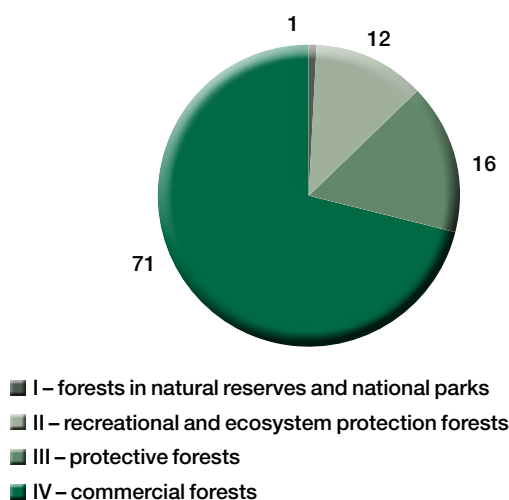
All forests are divided into four groups in Lithuania:

- 1st group – forests in natural reserves and national parks
- 2nd group – recreational and ecosystem protection forests
- 3rd group – protective forests
- 4th group – commercial forests

No timber harvesting whatsoever is permitted in the first group of forests, while a strictly limited harvesting can sometimes be allowed in forests of the second and third group. The fourth group represents the largest area of forests in Lithuania where continuous harvesting is carried out to ensure stable timber supplies.

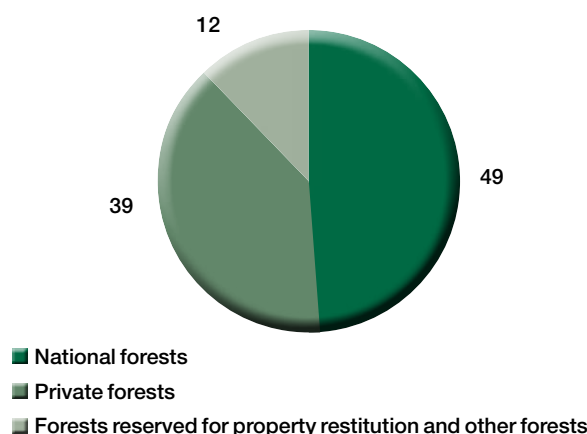
Forestry is an important part of the national economy. In 2010, the forestry sector employed about 7 percent of all workforce. Forestry alone, excluding wood processing and related activity, generated 0.65 percent of the GDP and offered about 1 percent of the nation's jobs.

Forest areas by groups as of January 1, 2011, percent



Source: State Forest Service

Forest areas by ownership as of January 1, 2011, percent



Source: State Forest Service

## Forestry sector as part of the national economy

Indicator	2005	2006	2007	2008	2009	2011
All forestry-related activity as part of overall added value, %	3.98	3.96	3.94	3.43	3.32	3.32
Forest enterprises as part of overall added value, %	0.53	0.52	0.60	0.48	0.45	0.65
All forestry-related employees, thousand	67.4	71.3	70.2	65.6	56.1	n. d.
Employees in forest enterprises and logging, thousand	10.1	10.4	10.3	10.0	9.3	n. d.
All forestry employees as percent of the country's total workforce	7.6	8.1	7.1	7.4	7.0	n. d.
Employees in forest enterprises and logging as percent of the country's total workforce	1.1	1.2	1.0	1.0	1.0	n. d.

Source: State Forest Service

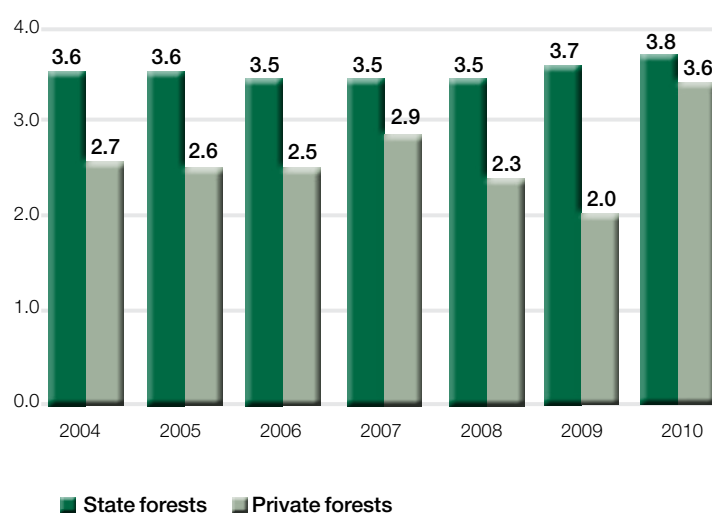
The country's total timber harvest amounted to 7.4 million cubic meters in 2010 with state-owned forests providing 51 percent of the total volume. The annual timber harvesting in state-owned forests ranged from 3.5 million m<sup>3</sup> to 3.8 million m<sup>3</sup> over the period from 2004 through 2010. Harvesting fluctuations were much more visible in private forests which supplied just over 2 million m<sup>3</sup> of timber in 2009 and almost doubled output, to 3.6 million m<sup>3</sup>, in 2010.

The largest part of timber was processed in Lithuania in 2010 as a mere 18 percent of all wood went for exports. The figure is considerably lower compared to the pre-crisis levels as some 25 percent of all Lithuanian wood was sold abroad in 2007. Sweden and Poland were the two largest export markets for Lithuanian timber in 2010 taking in 39 percent and 26 percent of all wood exports respectively.

## Round wood exports by state, 2010

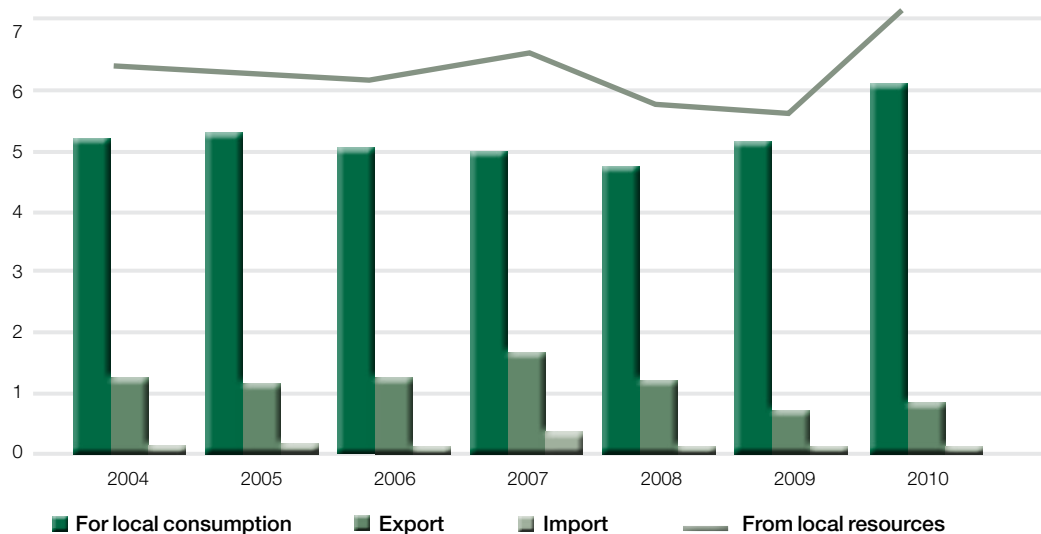
Country	Exports, in thousand m <sup>3</sup>
Sweden	523.6
Poland	343.8
Germany	199.6
Latvia	195.2
Finland	49.9
Other	17.3
Total	1329.5

Source: State Forest Service

Timber harvesting, m<sup>3</sup> million

Sources: Lithuanian Statistics, State Forest Service

### Round wood production and trade, m<sup>3</sup> million



Source: State Forest Service

A total of 267,000 hectares of woodland has been reserved for the ongoing property restitution program. They are currently managed by the National Land Service and all commercial activity in these forests is regulated by corresponding laws and other legal acts. State-owned forest enterprises supervise the reserved forests and implement various sanitary and fire protection measures, including sanitary clearing. They also replant trees. On certain occasions, state-owned forest enterprises have a right to sell logged timber.

Clear-cut logging is forbidden in the forests set aside for restitution in order to preserve these areas and sustain their value for their would-be owners. The state institutions involved in the process of restitution are facing the urge from the society to complete the restoration in the shortest possible time.

#### Key developments in 2010

The parliamentary resolution of March 2010 is a clear statement that the most valuable state-owned forests, such as woodlands in national parks and other reserves, must not be sold or privatised. They will remain in the possession of state-owned forest enterprises.

On the last day of March 2010, the National Audit Office of Lithuania released a report on commercial activity in state-owned forests. The document states, apart from the rest, that the operations of the Directorate General of State Forests and commercial activities of many forest enterprises it controls are not efficient enough. The report points out that prior to 2008 Lithuanian state-owned forest enterprises lagged behind their counterparts in Latvia and Estonia in terms of many key indi-

cators, including the average revenue per cubic meter of timber sold, and average operating costs. In addition to that, the overall number of jobs at state-owned forest enterprises, in relation to the area of state-owned forests, was considerably higher in Lithuania than the respective figure in Latvia and Estonia. Moreover, relative additional contributions to the national budgets by state-owned forest enterprises were lowest in Lithuania among the three countries.

The National Audit Office has emphasised that the number of state-owned forest enterprises should be reduced according to optimal needs of the sector. The report also noted that the specialised logging information system, Miško Skaita, has been used ineffectively.

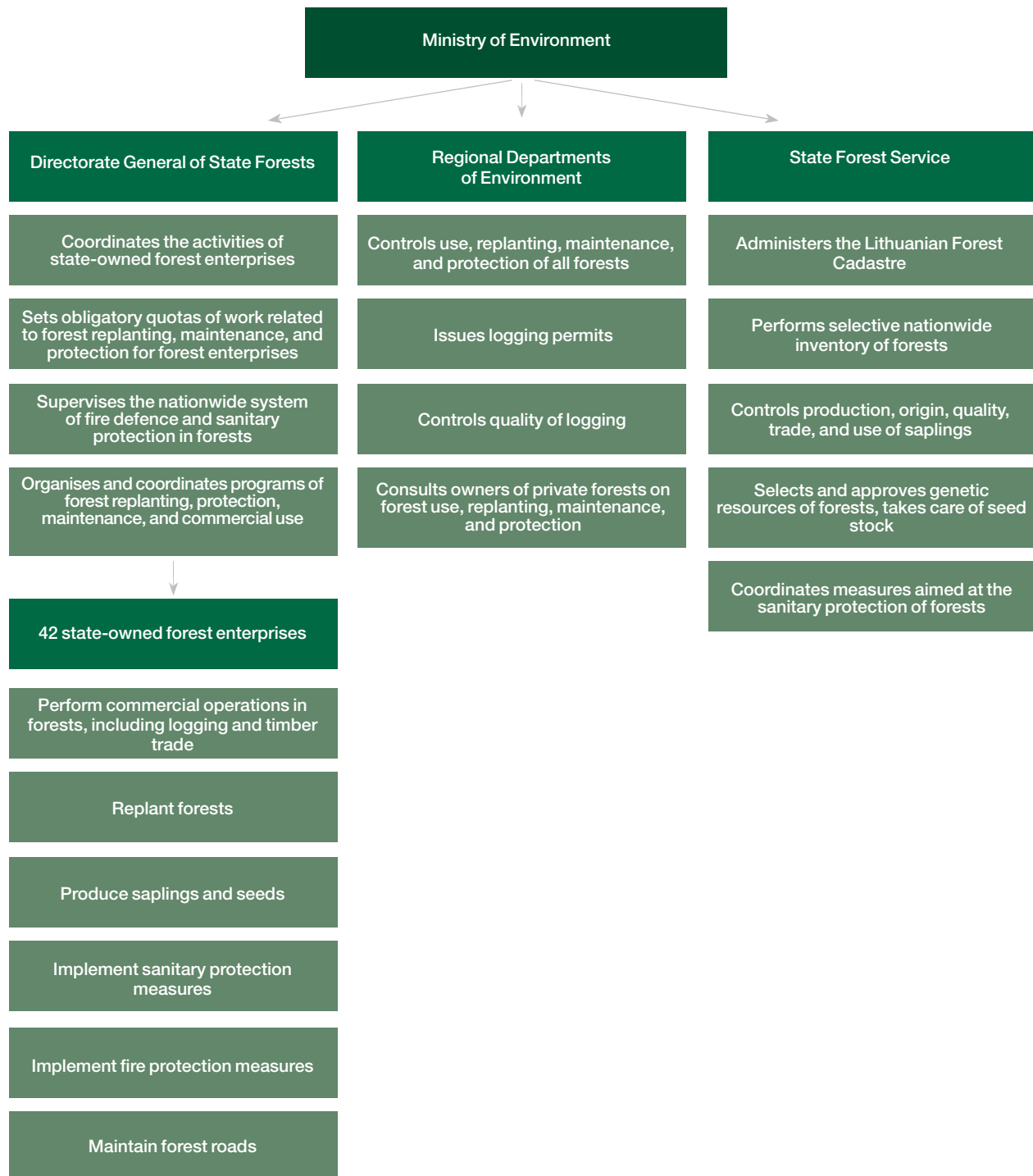
In August 2010, a squall swept a large part of Lithuania causing a considerable damage in the area of more than 27,400 hectares which formally belongs to ten state-owned forest enterprises. Thousands of trees fell down producing about 580,000 cubic meters of the “disaster timber” and incurring an overall LTL25m damage to state-owned forests. Material losses were, however, effectively liquidated by the end of 2010 by concerted efforts of a number of forest enterprises.

In Lithuania, state-owned forest enterprises are not distributing their profits in the form of dividends, according to the legislation in force. Alternatively, they contribute to the state budget revenue by paying a raw materials tax and a property tax, a total of 15 percent of their overall revenue. The combined tax rate stood at 10 percent in 2010 and was raised to 15 percent from the 1st of January, 2011.

### Management structure

The Law on Forests states that the forestry policies are set by the Parliament, through related legislation, while the Ministry of Environment is in charge of formation and implementation of development strategies for state-owned forests, through different programs. The Ministry supervises several Regional Environment Departments which control the use, replanting and protection of all forests in Lithuania. The Directorate General of State Forests under the Ministry of Environment coordi-

nates the activities related to forest protection and commercial use. Moreover, it supervises the activities of 42 state-owned forest enterprises which are directly responsible for all commercial and non-commercial activities in the state-owned forests. The State Forest Service under the Ministry of Environment manages the State Forest Cadastre and performs nationwide forest inventory projects.



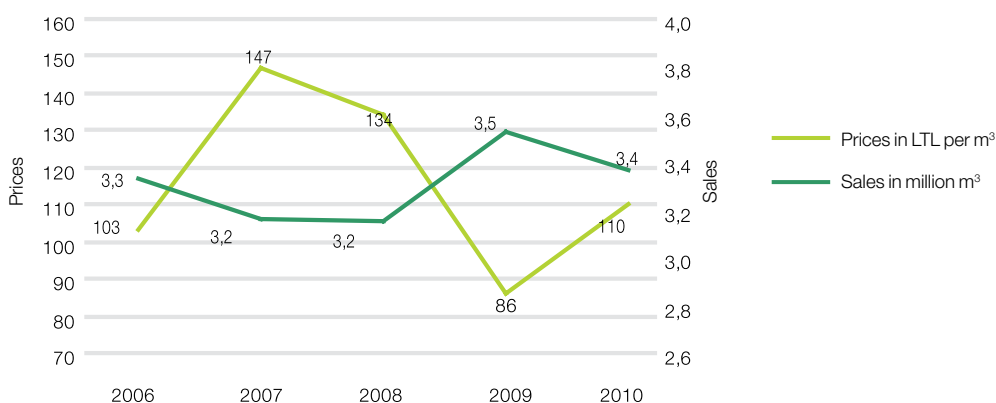
## Timber trade

The economic slowdown, which began in 2008, had a considerable impact on the domestic timber market. Round wood prices fell in 2008 and 2009, primarily due to lower demand. Logging activity slowed down gradually in private forests. In state-owned forests, however, logging levels remained virtually unchanged, compared to the pre-crisis years. It was in the beginning of 2010 that the average price of round wood logged

by the state-owned forest enterprises started to retreat from its 2009 lows to reach LTL110 per cubic meter in at the end of the year. The price rebounded primarily due to higher demand for timber both in Lithuania and abroad.

The demand was further spurred by unusually cold winters of 2008–2009 and 2009–2010 as almost one-fifth of all timber sold by the state-owned forest enterprises was used for heating.

### Timber trade and prices in Lithuania



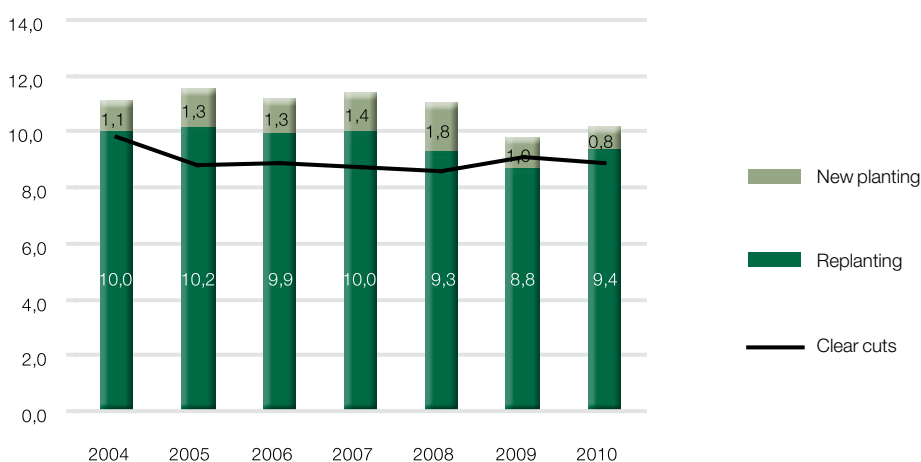
Sources: State Forest Service, Directorate General of State Forests

## Timber supply

The total forest area has been expanding since 1993 in Lithuania, alongside the average volume of timber which reached 237 m<sup>3</sup> per hectare in the beginning of 2011, according to the data provided by the Statistics Lithuania. All of this has led to a considerable increase in the overall volume of timber which

stood at 393 million m<sup>3</sup> in 2005 and went up to 490 million m<sup>3</sup> in the beginning of 2011. The positive trends point to the fact that Lithuania can increase logging substantially without a risk of reducing its timber resources to unacceptable levels.

### Replanting in state forests and the National Park, ha thousand



Sources: Lithuanian Statistics, State Forest Service

## Timber demand

Wood processing businesses want stable and sufficient timber supplies because otherwise they are forced to leave part of their capacities unused. Industry experts say that Lithuania's wood processing companies are capable of purchasing all timber that state-owned and private suppliers currently offer. Despite that, from 15 percent to 25 percent of all Lithuanian timber is exported every year. On the other hand, actual logging volumes are substantially lower compared to an annual logging reserve.

Ensuring stable and sufficient timber supplies would encourage wood processing companies to invest in the development of their businesses. Vakarų Medienos Grupė (Western Timber Group) is a good example as the company, together with Sweden's IKEA, expressed its intention to build a new particleboard and furniture factory in Alytus in 2009. The two companies planned to invest LTL450m creating up to 800 new jobs. The investors proposed a long-term contract to ensure the supplies of timber to the new factory. Because of the huge volume of timber required, only state-owned forests could possibly satisfy the demand. However, neither of the state institutions could provide supply guarantees and IKEA eventually abandoned its investment project.

Using wood to make goods, such as furniture, creates at least 27 times more jobs and produces a 10-fold increase in value compared to using the same wood for heating. This is one of the conclusions that the Centre for Investment and Financial Analysis, a private consultancy, said in its 2008 survey of the wood processing industry in Lithuania. The discrepancy is even greater in the pulp and paper industry, up to 60 times in terms of number of new jobs created. The results of the analysis encourage the proper use of the local wood resources in order to guarantee sustainable development of the country's forests. The hierarchy of use of timber puts heating at the very bottom which means that only the lowest-quality wood, such as wood processing waste, should be used for heating. All other timber should be used for producing added-value products, such as pulp, paper, furniture and various household items.

In this respect, the main problem in Lithuania is that the current legislation encourages the owners of biofuel boilers burn wood of various quality, not only the lowest one. Even if production-grade wood is used to produce heat in biofuel boilers, the owner gets a compensation for the wood burned. Hence, even burning good quality, and more expensive, wood has no impact on profits.

## Financial and operating results

All state-owned forest enterprises, which operate according to the Law on Forests, provide financial data which excludes the value of forests they own. Due to this practice, assets reported in the financial documents by forest enterprises are considerably lower than the actual ones. This makes the comparison of forest enterprises and other state-owned companies extremely difficult, particularly their ROE and ROA ratios. To avoid this problem, the estimated overall value of forests, which stood at LTL3.1bn at the end of 2010, has been included in the aggregate balance sheet of forest enterprises as fixed assets. Accordingly, the aggregate equity has been boosted. This is important because forests accounted for 92 percent of the aggregate assets in the balance sheets of forest enterprises at the end of 2010.

The state forestry sector is largely dominated by 42 state-owned forest enterprises which mostly perform commercial operations and generated as much as 99 percent of the sector's revenue in 2010. Their aggregate assets accounted for 99.9 percent of the sector's total. Apart from the forest enterprises, only one other organisation, the Lithuanian Forest Inventory and Management Institute, operates in this sector.

Higher timber demand and rising prices boosted the aggregate sales of state-owned forest enterprises to LTL420m in 2010 from LTL352m a year ago. Their cumulative net profit went up to LTL40m from LTL2.6m accordingly. The aggregate gross profit margin increased from 53 percent in 2009 to 63 percent in 2010, while the net profit margin grew from 1 percent to 9 percent.

In addition to that, state-owned forest enterprises paid LTL37.6m in raw materials taxes in 2010, up from LTL20.4m one year ago, mostly due to higher sales and a rise in the raw materials tax level. Eliminating the raw materials tax from operating costs sends the net profit to LTL71.6m in 2010, which represents an almost four-fold jump compared to LTL19.9m in 2009.

Despite lower production costs, the aggregate operating costs grew by 19 percent in 2010, to reach LTL22m, primarily due to an increase in raw materials tax allocations which were LTL17.2m higher in 2010 than one year ago. Costs related to forest replanting rose as well in 2010.

The average area of state-owned forests per one employee in forest enterprises grew from 277 hectares in 2009 to 282 hectares in 2010.

The aggregate return on equity stood at 2.1 percent in 2010. In this calculation, operating costs have been reduced by the value of raw materials tax and property tax paid by the state-owned forest enterprises.

LTL thousand	Forestry	
<b>PROFIT AND LOSS STATEMENT</b>	<b>2009</b>	<b>2010</b>
Sales revenue	352 000	420 329
Cost of goods sold	166 432	157 378
<b>Gross profit (loss)</b>	<b>185 569</b>	<b>262 951</b>
Gross profit margin	52,7 %	62,6 %
Operating cost	186 845	222 050
<b>Operating profit (loss)</b>	<b>-1 277</b>	<b>40 900</b>
EBIT margin	-0,4 %	9,7 %
<b>EBITDA</b>	<b>29 637</b>	<b>71 221</b>
EBITDA margin	8,4 %	16,9 %
<b>Net profit (loss)</b>	<b>2 637</b>	<b>39 696</b>
Net profit margin	0,7 %	9,4 %
<b>Minority interest</b>	<b>0</b>	<b>0</b>
<b>BALANCE SHEET</b>	<b>2009</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>3 363 270</b>	<b>3 378 043</b>
Intangible assets	214	250
Tangible assets	3 360 655	3 368 668
Financial assets	23	3 937
Other fixed assets	2 378	5 188
<b>Current assets</b>	<b>193 430</b>	<b>235 408</b>
Inventories and prepaid expenses	72 570	81 724
Accounts receivable in one year	25 370	28 238
Other current assets	57 109	68 164
Cash and cash equivalents	38 382	57 282
<b>TOTAL ASSETS</b>	<b>3 556 700</b>	<b>3 613 451</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>3 511 466</b>	<b>3 552 339</b>
Minority shareholder equity	0	0
<b>Subsidies</b>	<b>10 453</b>	<b>17 509</b>
<b>Liabilities</b>	<b>34 782</b>	<b>43 604</b>
Long-term liabilities	4 139	3 137
Short-term liabilities	30 643	40 466
Financial liabilities	4 098	4 776
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 556 700</b>	<b>3 613 451</b>
<b>Key ratios</b>	<b>2009</b>	<b>2010</b>
Debt to assets	98,7 %	98,3 %
Debt to equity	0,1 %	0,1 %
ROA**	0,7 %	2,1 %
ROCE**	0,7 %	2,3 %
ROE**	0,7 %	2,1 %
<b>Other data</b>	<b>2009</b>	<b>2010</b>
Staff	4 005	3 947
<b>Investor return</b>	<b>25 278</b>	<b>42 462</b>
Property tax	4 916	4 885
Raw materials tax	20 362	37 577

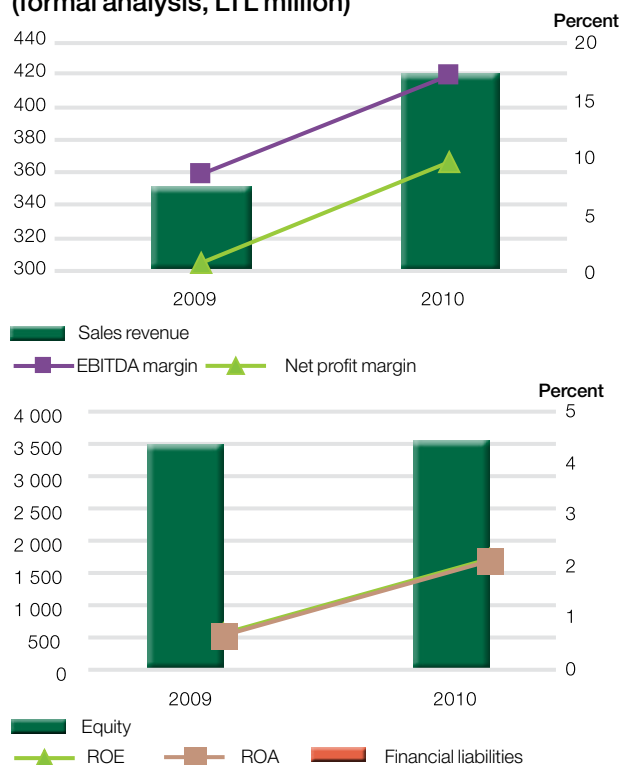
\* Profitability ratios exclude taxes on property and raw materials deducted from operating costs.

### Profit and costs of forestry enterprises

Profit and costs of forestry enterprises per 1 m <sup>3</sup> of timber sold, in LTL	2006	2007	2008	2009	2010
Operating profit * /m <sup>3</sup>	13,2	36,6	12,1	6,7	24,7
Costs of goods sold /m <sup>3</sup>	41,9	49,2	58,5	45,5	45,6
Total costs /m <sup>3</sup> *	104,6	126,5	139,3	90,9	98,6

\*Taxes on raw materials and property have been deducted from operating costs

### Cost-effectiveness of the forestry sector (formal analysis, LTL million)



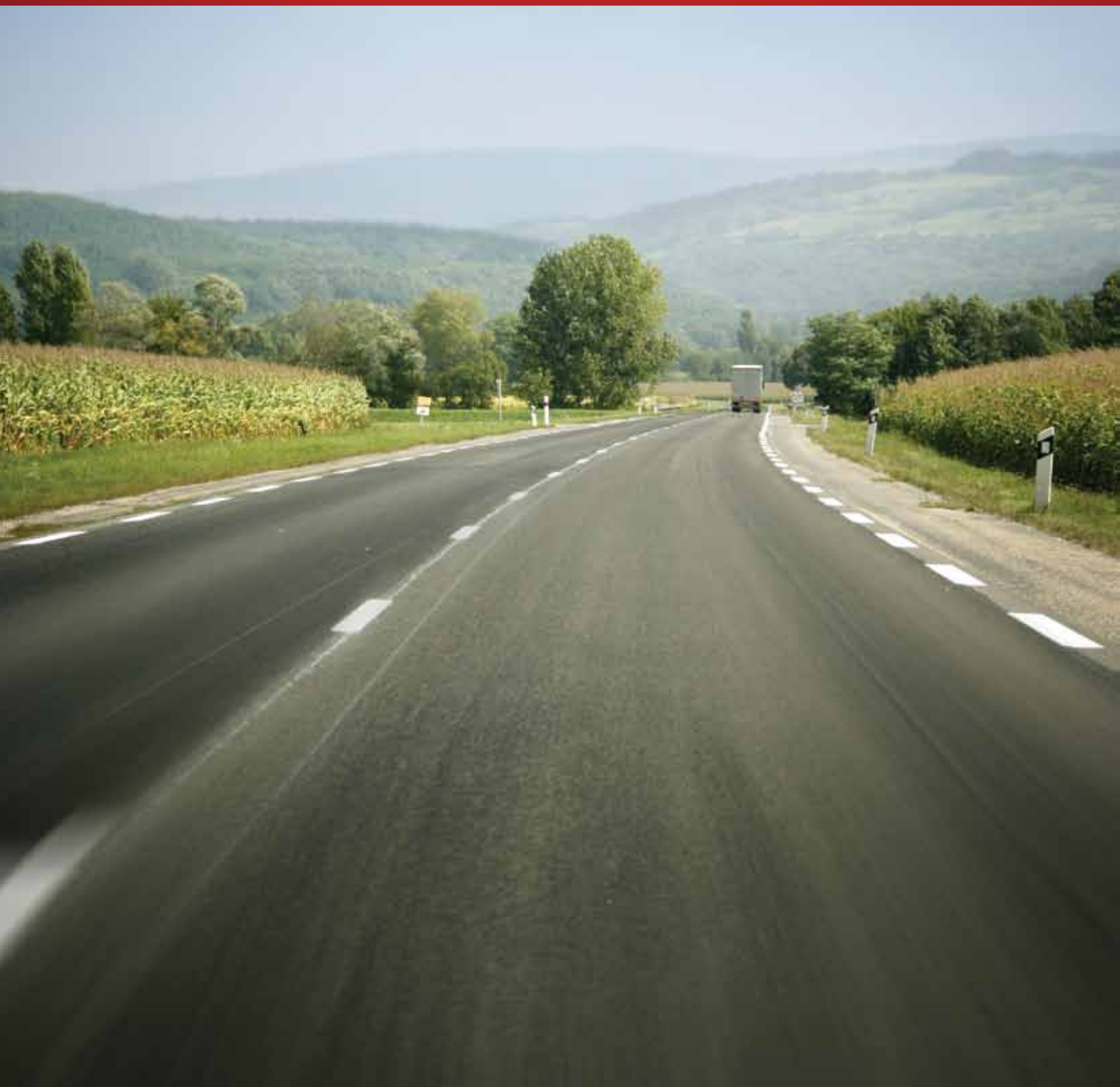
The aggregate profits of the country's 42 state-owned forest enterprises, less property and raw materials taxes, reached LTL24.7 per one cubic meter of timber sold in 2010 which represents a more than three-fold rise compared to the respective figure a year ago (LTL6.7/m<sup>3</sup>). The profit per m<sup>3</sup> indicator was close to its highest level over the past five years. EBIT margin, less property and raw materials taxes, stood at 20 percent in 2010 compared to just 7 percent in 2009.

The most efficient state-owned forest enterprises earn up to LTL45 per each m<sup>3</sup> of timber sold, while less efficient ones post average earnings of about LTL30 per m<sup>3</sup>. Accordingly, the most successful forest enterprises reach profit margins of 35 percent to 45 percent.

It is important to note that state-owned forest enterprises perform a scope of non-commercial functions which add to costs but do not generate direct revenue. The non-commercial costs are not huge, compared to the overall commercial revenue, however, their elimination would marginally improve the aggregate financial results of state-owned forest enterprises.

Evaluating their efficiency without taking into account changes in timber prices, cost of sales is by far more reliable indicator. In 2010, the average production cost of every cubic meter of timber sold stood at LTL45.6, which is a better result compared to 2007 and 2008. Gross costs per cubic meter rose to LTL98.6 in 2010 from LTL90.9 one year ago, primarily due to the increased volume of forest replanting activity.

# TRANSPORT



## Overview

Transportation, warehousing and communication generated 15.2 percent of the nation's overall gross domestic product in 2010, according to Statistics Lithuania. The sector's results largely depend on economic and financial trends in Lithuania and its main trade partners.

The transport sector is important to the development of exports and domestic trade because transportation and logistics

form one of the key links in the value chain of most goods and services.

In Lithuania, state-owned enterprises operate in road maintenance and development, logistics, railways, sea and river shipping, airports, and postal services. All in all, the State controls 25 companies and organisations in the transport sector. Key data about ten largest enterprises is provided in the table below.

No.	Enterprise	Area of operations	Turnover in 2010 (LTL million)	Assets in 2010 (LTL million)	Number of employees	State interest, in percent
1	Lithuanian Railways	Transportation of freight and passengers, management of railway infrastructure	1 404	4 510	11 632	100
2	Lithuanian Post	Universal postal services, courier, and financial services	174	220	6 870	100
3	Klaipėda Oil	Handling of oil products and related services	123	474	306	70,6
4	Klaipėda State Seaport Authority	Management of the Klaipėda seaport	148	1 189	266	100
5	Lithuanian Shipping Company	Air traffic services in the Lithuanian air space	73	160	316	100
6	Vilnius International Airport	Transportation of freight by sea vessels	62	249	366	56,66
7	VĮ Tarptautinis Vilniaus oro uostas	Management of airport in Vilnius	42	319	412	100
8	Šiauliai Regional Road Enterprise	Technical maintenance of roads in the region of Šiauliai	36	713	352	100
9	Kaunas Regional Road Enterprise	Technical maintenance of roads in the region of Kaunas	29	804	347	100
10	State Enterprise Automagistrālė	Technical maintenance of roads of state importance and their infrastructure	27	993	606	100

## Financial data

Aggregate costs of the sector's enterprises rose by 5 percent while their revenue increased by 10 percent in 2010. This helped the profitability of the sector to go up as well. Sales revenue per employee amounted to LTL95,600 which represents a 19 percent improvement compared to the respective figure one year ago (LTL80,300). The change in profit per employee was even more noticeable as it soared more than nine-fold in 2010, to reach LTL3,800, compared to a mere LTL400 in 2009.

Lietuvos Geležinkeliai (Lithuanian Railways), by far the largest company in the sector, posted a four-fold rise in net profits. Vilnius International Airport slashed its losses. The positive trends were influenced by improving economic conditions both

in Lithuania and worldwide. On the other hand, the two companies enjoyed larger passenger and freight volumes, partly due to more flexible pricing policies.

In terms of optimisation of operations, Lietuvos Paštas (Lithuanian Post) appeared to be the most successful organisation in the sector as the company's overall costs went down by as much as 39 percent in 2010. This led to a six-fold decrease in net loss. Klaipėda State Seaport Authority spent LTL11.5m when executing dredging works in the new seaport of Šventoji. These were extraordinary costs and should be ignored when assessing efficiency.

LTL thousand	Transport	
	2009	2010
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	2 086 483	2 296 658
Cost of goods sold	1 727 536	1 811 980
<b>Gross profit (loss)</b>	<b>358 947</b>	<b>484 679</b>
Gross profit margin	17,2 %	21,1 %
Operating cost	347 274	367 783
<b>Operating profit (loss)</b>	<b>11 673</b>	<b>116 896</b>
EBIT margin	0,6 %	5,1 %
<b>EBITDA</b>	<b>500 008</b>	<b>621 509</b>
EBITDA margin	24,0 %	27,1 %
<b>Net profit (loss)</b>	<b>10 500</b>	<b>91 054</b>
Net profit margin	0,5 %	4,0 %
<b>Minority interest</b>	<b>-1 500</b>	<b>-9 335</b>
<b>BALANCE SHEET</b>		
	2009	2010
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>6 938 161</b>	<b>7 247 669</b>
Intangible assets	34 179	35 065
Tangible assets	6 891 248	7 181 023
Financial assets	6 436	19 083
Other fixed assets	6 298	12 498
<b>Current assets</b>	<b>690 581</b>	<b>738 035</b>
Inventories and prepaid expenses	160 021	199 919
Accounts receivable in one year	303 780	270 698
Other current assets	79 018	16 601
Cash and cash equivalents	147 762	250 817
<b>TOTAL ASSETS</b>	<b>7 628 742</b>	<b>7 985 704</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>5 001 293</b>	<b>5 424 754</b>
Minority shareholder equity	218 957	204 803
<b>Subsidies</b>	<b>1 295 446</b>	<b>1 320 751</b>
<b>Liabilities</b>	<b>1 332 003</b>	<b>1 240 199</b>
Long-term liabilities	690 401	701 692
Short-term liabilities	641 602	538 507
Financial liabilities	799 045	781 850
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>7 628 742</b>	<b>7 985 704</b>
<b>Key ratios</b>		
	2009	2010
Debt to assets	65,6 %	67,9 %
Debt to equity	16,0 %	14,4 %
ROA*	0,3 %	1,3 %
ROCE*	0,4 %	2,1 %
ROE*	0,4 %	1,9 %
<b>Other data</b>		
	2009	2010
Staff	25 970	24 023
<b>Investor return</b>	<b>28 785</b>	<b>70 171</b>
Dividends	16 243	57 728
Property tax	12 542	12 443

\*Tax on property has been deducted from operating costs when calculating profitability ratios

Combined dividends paid by state-owned enterprises in the transport sector grew by 18 percent to LTL57.7m, mainly because of higher dividends allocated by Lithuanian Railways which amounted to LTL56.4m.

## Logistics

Logistic operations, when properly managed, allow companies reduce prices of their products and services and, consequently, help increase profitability. The World Bank Logistics

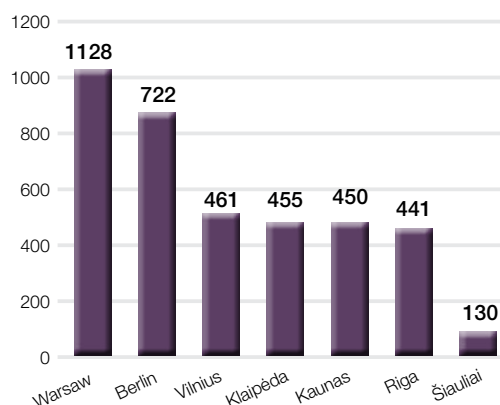
Performance Index ranked Lithuania 45th among the world's 155 nations it surveyed. Lithuania's score was lowest for its logistics infrastructure and logistics competence.

LPI rating	Country	LPT	Customs	Infrastructure	International shipping	Logistic competence	Tracing	Timeliness
1	Germany	4.11	4	4.34	3.66	4.14	4.18	4.48
12	Finland	3.89	3.86	4.08	3.41	3.92	4.09	4.08
30	Poland	3.44	3.12	2.98	3.22	3.26	3.45	4.52
37	Latvia	3.25	2.94	2.88	3.38	2.96	3.55	3.72
43	Estonia	3.16	3.14	2.75	3.17	3.17	2.95	3.68
45	Lithuania	3.13	2.79	2.72	3.19	2.85	3.27	3.92

Source: The World Bank, 2010

Warehousing infrastructure is insufficient in the country's largest cities, especially in comparison to many cities across the European Union. In terms of warehousing space per 1,000 inhabitants, Vilnius, Kaunas and Klaipėda lag behind Warsaw by roughly two times. The difference is even greater compared to other cities in Europe.

### Warehousing space in square meters per 1,000 inhabitants



Source: Ministry of Transport and Communications, 2010

In general, Eastern European countries lag behind Scandinavia and Western Europe considerably. In Scandinavia and Western Europe, average warehousing space per 1,000 inhabitants varies from 1,390 m<sup>2</sup> to 3,664 m<sup>2</sup> depending on a city, while in Central and Eastern Europe the indicator is about ten times lower, at 320 m<sup>2</sup> in the Czech Republic and just 157 m<sup>2</sup> in Poland.

### Demand and supply

In Lithuania, a gap between demand and supply for modern logistics facilities is noticeable. However, the domestic market is currently dominated by small logistics centres, of 400 to 800 square meters, almost all of them owned by private investors. On the other hand, all the logistics centres currently in operation are single-modal which means that freight must be unloaded there before changing means of transport, e. g. from railway to truck. Larger and more versatile projects require huge fixed costs investment and thus involve considerable business risks which private companies are unwilling to take.

There is a high sensitivity of demand for logistics services to the general economic conditions, both domestic and global. Lithuanian transport and logistics companies have formed their customer base mainly inside the country. However, their most important markets are abroad, namely in Western Europe, Russia and other CIS countries.

Due to the reasons mentioned above, the demand for new inter-modal logistics centres capable of servicing different types of freight is rising. On the other hand, the country needs at least several larger logistics centres. Both problems can be solved by attracting public funding as the projects might prove too risky for private investors.

### Strategic projects

The Government's decision to build four public logistics centres was announced back in 2008. According to the project, which has been granted the status of nation-wide importance, the PLCs are seen as an agglomeration of independent companies and organisations that provide freight transportation, logistics and related services using at least one inter-modal terminal.

In Vilnius and Kaunas, the PLCs, valued respectively LTL121m and LTL90m, are to be built by Lithuanian Railways in cooperation with the Ministry of Transport and Communications. In Šiauliai, the LTL48m terminal will be built by local municipality while the Klaipėda State Seaport Authority is to invest another LTL48m to construct the terminal inside the port. All the four PLCs, expected to be completed by the end of 2015, will be partly financed with EU Structural Funds.

While implementing the projects, the State will contribute by building the required infrastructure, such as roads, railways, water and power supply systems etc. In addition to that, the State will observe that all PLCs' customers enjoy equal conditions of operations, and a free access to infrastructure. If required, the State will support the PLCs in order to ensure their business continuity and sustainability.

Private companies are expected to invest in building warehouses and other facilities.

The projects are believed to bring various benefits, such as strengthening operational relations between different types of transport and improving quality of transportation services. In addition to that, the new PLCs will add to the expansion of the logistics service market share and create new jobs. More business opportunities will open for the providers of supporting products and services while smaller companies will get easier access to public transport and logistics infrastructure. The new terminals will reduce the environmental impact of the transport sector and will help improve transport security. Finally, the PLCs are expected to draw more foreign investment into the country.

## Road management

In Lithuania, all roads are divided into two large groups, of national and local importance. The total length of roads stands at about 81,000 in Lithuania. Public roads are managed by ten regional road administration enterprises and Automagistrālė, a state-owned enterprise under the Ministry of Transport and Communication.

Function-wise, road administration splits into two areas:

- road building, reconstruction and development; these services are provided by private companies contracted via public procurement;
- road maintenance, which includes snow removal, deicing, and asphaltting; these services are provided by state-owned companies.

### Operating and financial results

Road maintenance is financed by the state budget, through the Lithuanian Road Administration (LRA). The table below shows budget allocations to the LRA, in million litas.

	2009	2010
Funds allocated	775.7	881.7
Funds spent	775.7	865.4
Spent vs. allocated, in percent	100	98

Source: Ministry of Finance, 2011

The LRA has declared three strategic objectives in 2010.

- 1) Upgrade of roads of national importance to ensure uninterrupted and secure traffic. Reducing the number of dangerous locations on roads is a key task in this area of activity. In 2010 alone, 24 of such "black spots" were eliminated. In addition to that, new pedestrian and bicycle paths were built. To raise public awareness regarding the traffic security, several information campaigns were carried out.
- 2) Maintenance of roads throughout the country to sustain their quality and usability. More than half of all money has been used for road cleaning in winter, while about a quarter of funds have been allocated for road maintenance in summer. Residual part of funding has resulted into a total of 234,000 square meters of damaged road surface being fixed and 141 kilometres of gravel roads being upgraded.
- 3) Reducing traffic jams and environmental impact. Although later than scheduled, several important contracts were finalised in 2010. According to them, a section of the Vilnius-Kaunas highway at Grigiškės will be reconstructed, a new overhead road at the entrance to Klaipėda will be erected, the Vilnius southern bypass road will be built, and the road between Panevėžys, Šiauliai and Radviliškis will be upgraded. All the four projects, partly financed by the EU funds, are to be carried out in 2011.

### Strategic projects

Lithuania is an active participant of the Trans-European Transport Network development programs aimed at integrating systems of different modes of transport in various countries into a seamless pan-European network to ensure its efficiency and security. The Ministry of Transport and Communication is in charge of drawing the strategic path for the transport network development in Lithuania. In turn, the Road Maintenance and Development Programme, scheduled for 2005 through 2015, defines the main direction of the strategy which covers traffic security measures, building of new roads and bypasses, development of international transport corridors, upgrade of existing roads and asphaltting of gravel roads.

The reconstruction of road sections which belong to Via Baltica, a highway between Warsaw and Tallinn, is to be completed by the end of 2015. All in all, LTL500m will have been used for the project which is financed with the EU Structural Funds and the Road Maintenance and Development Programme. Via Baltica is one of key projects which help Lithuania integrate into the European transport network.

In addition to that, the LTL121m upgrade of the road between Vilnius and Utena will start in 2012. The project, financed by the Road Maintenance and Development Programme, is to be completed in 2014.

## Railways

A total length of the Lithuanian railway network is almost 1,770 kilometres. Two international railway corridors, the ninth from East to West, and the first from North to South,

intersect in the country accounting for more than 80 percent of all freight transported by railways.

The first corridor is important for Lithuania's integration into the pan-European railway network. However, railway gauge in Lithuania is wider than that across Western Europe, which makes the connection of railway systems complicated.

The ninth corridor is vital both for domestic and transit freight, especially when railway transportation from Belarus to the port of Klaipėda, and vice versa, is concerned.

The Ministry of Transport and Communication is in charge of the implementation of national railway development policies while the railway infrastructure is owned by Lithuanian

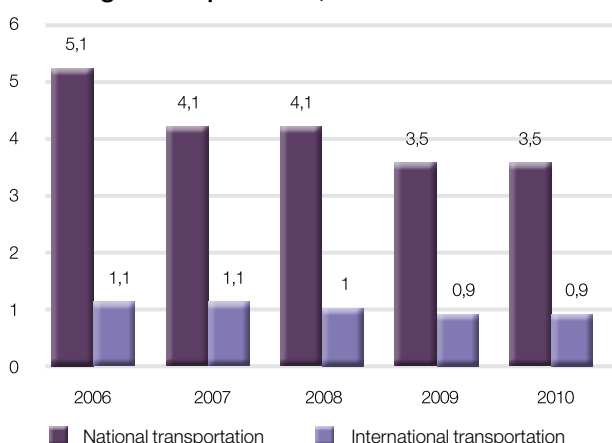
Railways, the country's sole railway company which provides both passenger and freight transportation services.

**Operating results: passengers**

The overall number of passengers carried by Lithuanian Railways remained virtually unchanged in 2010 compared to the respective figure one year ago. However, average length of passenger journey was higher than in 2009.

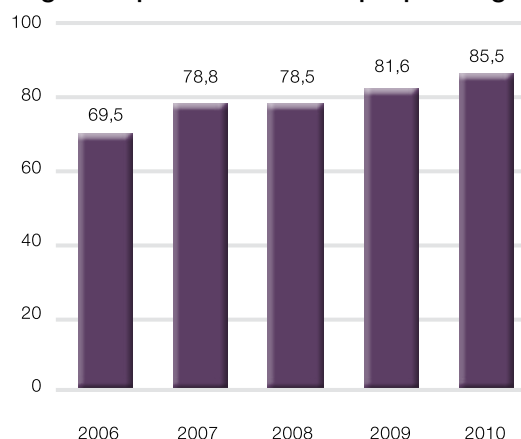
In Lithuania, railways are far less popular than in most European countries. This is clearly reflected in the number of railway passengers per 1,000 residents which is eight times lower in Lithuania compared to the average level across the European Union.

**Passenger transportation, million km**



Source: Lithuanian Railways, 2011

**Average transportation distance per passenger, km**



Source: Lithuanian Railways, 2011

**Passengers using different means of transport, percent in 2009**

	Cars	Busses	Trains	Trams and metro
EU-27	82.6	8.8	7.0	1.5
Estonia	78.7	18.9	1.9	0.6
Latvia	85.4	9.8	3.9	0.9
Poland	85.8	7.3	5.6	1.3
Lithuania	92.0	7.1	0.9	-
Finland	83.9	10	5.4	0.7
Germany	84.6	6.0	7.9	1.6

Source: European Commission, 2011

As a state-owned company, Lithuanian Railways implements the non-commercial objectives set by the Ministry of Transport and Communication. They are related to the transportation of passengers which is generally loss-making but vital for society. On many routes, passenger transportation tariffs set by Lithuanian Railways are lower compared to the commercially viable levels.

In Lithuania, just like in the rest of Europe, the number of railway passengers is largely influenced by several factors, such as speed and comfort of travel, frequency of train departures, as well as density of the domestic railway network. In Lithuania, most of the locomotives are more than 20 years old. Partly due to this, the average railway transportation costs per passenger are higher compared to the bus service.

Railways*		Bus trips		
		Vilnius–Kaunas	Vilnius–Klaipėda	Vilnius–Šiauliai
LTL/km	0,52	0,19	0,19	0,21

\* Calculated by dividing sales cost and respective operating cost by passenger kilometres on domestic routes in 2010. Data provided by the Lithuanian Railways Passenger Service Division.

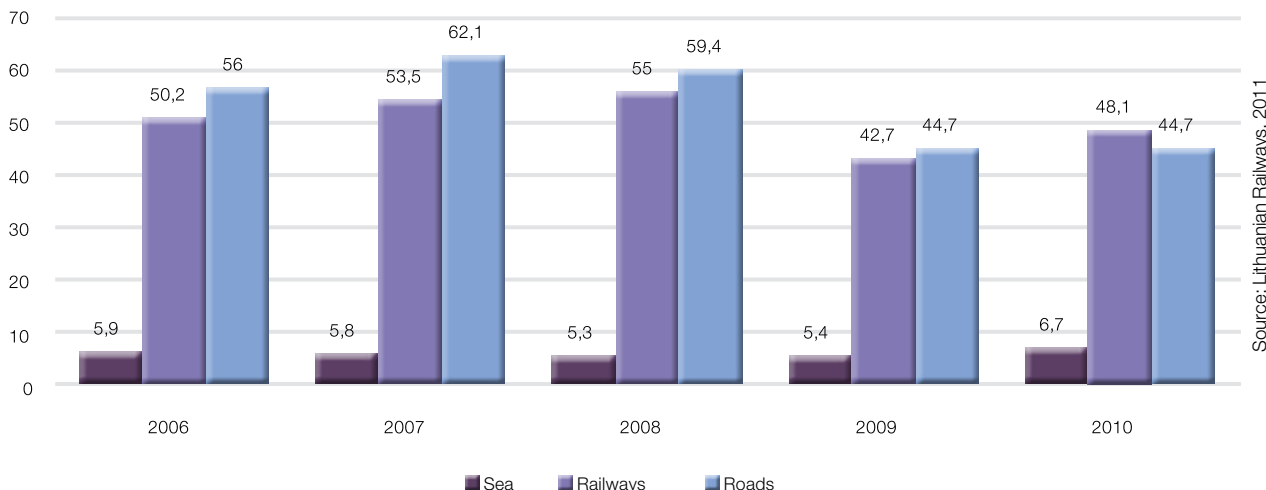
\*\* Average travel cost per kilometer is ticket price divided by travel distance. See [www.toks.lt](http://www.toks.lt)

### Operating results: freight

Transportation of freight is the most important area of business activity for Lithuanian Railways. The railway network is mostly used for the transportation of bulk freight such as ce-

ment, oil and its products, metals, grain etc. In terms of average weight of freight, railways are similar to road transport.

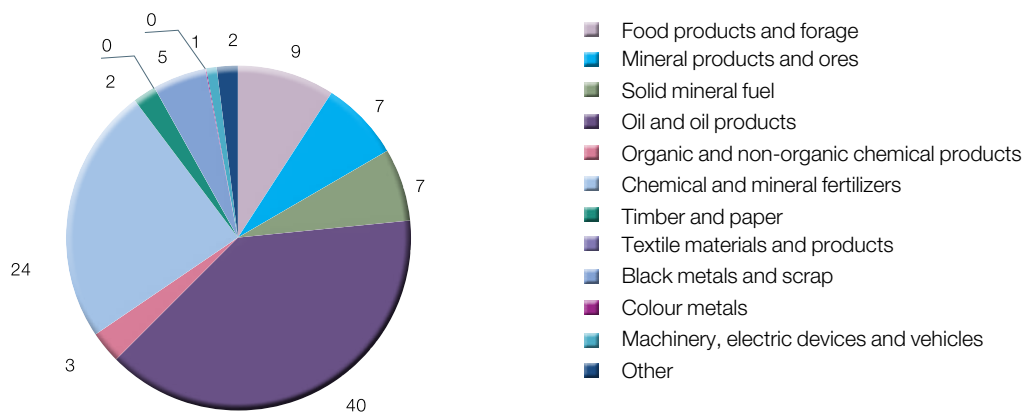
### Freight transportation, million tons



A total of 48.1 million tons of freight was transported using the Lithuanian railway network in 2010 of which 70 percent were transit shipments to and from Belarus and the Kaliningrad region. The average distance per one ton of freight stood at 279 kilometres in 2010. Overall, the volume of railway freight was 10 percent higher in 2010 compared to the respective figure one year ago, primarily due to improving economic conditions and higher volumes of foreign trade.

Oil and oil products led the list of goods transported by railways, followed by chemical and mineral fertilisers, and cement. Accordingly, Lithuanian Railways' largest customers in 2010 were Orlen Lietuva, operator of an oil refinery, Achema and Lifosa, fertiliser makers, and Akmenės Cementas, producer of cement. This points to the fact that Lithuanian Railways' customer base is highly concentrated as freight volumes depend largely on few large companies.

### Freight by type, percent



Source: Lithuanian Railways, 2011

### Strategic projects

Rail Baltica, a railway between Finland and Poland through the three Baltic States, is one of the key transport projects Lithuania is set to implement. In 2010, a list of top priority measures was adopted by the Government. According to the plan, the European-gauge line from Kaunas to the Lithuanian and Polish border should be built by the end of 2013. The total length of the Rail Baltica's Lithuanian section is 330 kilometres. The project, scheduled for completion in 2015, is valued

at LTL950m. The financing is provided by the EU Cohesion Funds and TEN-T funds, as well as national budget allocations and Lithuanian Railways' own money.

Lithuanian Railways also carries out other projects which include the modernisation of its rolling stock. In 2010, the company bought its third electric two-deck train which offers 304 seats. In March, a €20m lending deal with the European Investment Bank was signed to finance the purchase of ten new Siemens ER20 locomotives. Compared to the old machines

Lithuanian Railways uses now, the new ones are much safer, technically advanced, and environmentally friendly as they consume 40 percent less diesel fuel.

In addition to that, Lithuanian Railways signed a multilateral agreement in 2010 to develop the East-West Transport Corridor, as part of the country's efforts to integrate into the global transport and logistics system. The EWTC is aimed at interconnecting transport centres in Lithuania, Germany, Denmark and Southern Sweden with these in Belarus, Ukraine, Russia and Asia.

## Sea transport

Lithuania has a 90.7 kilometre shoreline along the Baltic Sea where two seaports, in Klaipėda and Šventoji, are located. They are managed by the Klaipėda State Seaport Authority, the institution under the Ministry of Transport.

The port in Klaipėda is multimodal and universal, capable of receiving deep-sea vessels. The port houses fifteen large and a number of smaller companies operating in all sectors related to the nautical business, such as freight handling, ship building, ship repair, construction etc. The Port of Klaipėda is ice free enabling continuous shipping and freight handling throughout the year.

Several important land routes link Klaipėda to key industrial areas in Russia, Belarus, Ukraine and other countries. On the other hand, Klaipėda is connected to Western Europe by sea lines which stretch further to Asia and the Americas.

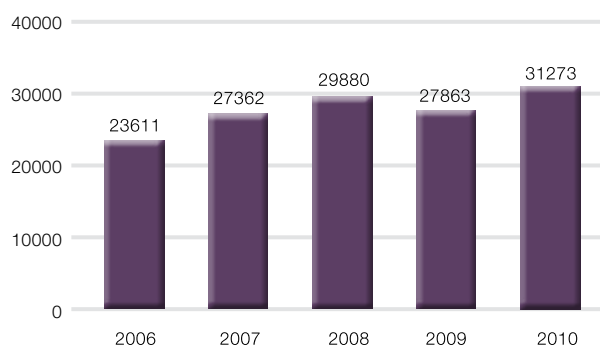
Lithuania's commercial fleet includes eleven vessels operated by Lietuvos Jūrų Laivininkystė (Lithuanian Shipping Company), majority owned by the State, as well as sixteen ships owned by the Limarko Shipping Company, and eight ferries operated by DFDS Seaways. In addition to that, several small companies own at least one vessel each suitable for international freight transportation.

Sea transport development strategy and policies are implemented by the Water Transport Division of the Ministry of Transport and Communication. Apart from that, it coordinates related projects and represents Lithuania in international organisations.

## Operating results

The overall freight handling volume went up by more than 10 percent in the Port of Klaipėda in 2010 to reach an all-time record of 31.3 million tons.

## Freight handling, thousand tons



Source: Klaipėda State Seaport Authority, 2011

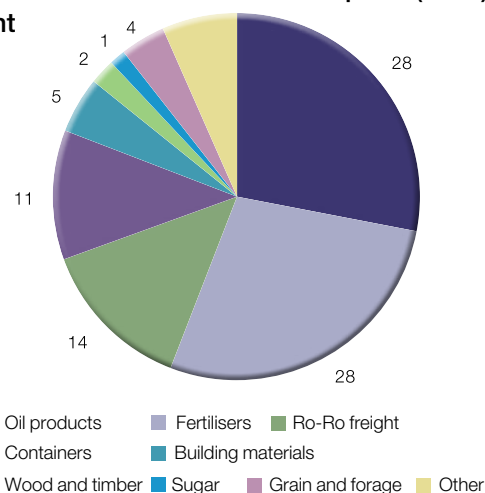
Annual freight handling volumes in Klaipėda largely depend on general economic conditions in Lithuania and abroad, especially in the countries which are important trade partners. Most of the freight handled in Klaipėda arrives or is transported from the port by railway. Hence, the volume of railway freight correlated with the workloads for many of the port's companies. In particular, the Port of Klaipėda receives freight delivered via the Viking railway link which connects Klaipėda with the Black Sea ports of Odessa and Ilyachovsh, through Minsk and Kiev.

The Port of Klaipėda, unlike its competitors in Riga, Ventspils and Muuga, offers diversified services aimed at handling different freight, such as containers, bulk cargo, oil products etc. Competition-wise, this puts Klaipėda into a more favourable position because the Lithuanian port is far less dependant on a single type of goods and fluctuations in respective sectors of the market. In Klaipėda, oil products and fertilisers each accounted for 28 percent of the total freight handled in 2010, followed by the Ro-Ro cargo (14 percent) and containers (11 percent).

The overall volume of oil products handled in the port ebbed by 5 percent in 2010, in sharp contrast with the volume of fertilisers which soared by one-fourth. The increase was mostly due to a new contract with Belaruskali, a Belarus company which exported a considerable part of potash fertilisers it produces through Klaipėda in 2010.

Transit cargo, mostly delivered by Lithuanian companies, accounted for about 40 percent of all freight handled in the port. The overall volume of transit cargo rose by 18 percent in 2010, compared to the respective figure a year ago. The volume of freight originating in Latvia and Estonia decreased but that was offset by a remarkable growth of cargo from Russia and other CIS countries.

## Freight structure in the Port of Klaipėda (2010), percent



Source: Klaipėda State Seaport Authority, 2011

The ports on the eastern side of the Baltic Sea, including St. Petersburg, Primorsk, Tallinn, Riga, Ventspils, Liepaja, Klaipėda, the Būtingė Terminal, and Kaliningrad, posted a rise of 5.7 percent in combined freight turnover which reached 286 million tons in 2010. In terms of the total cargo handling, Klaipėda was ahead of Riga, Liepaja, Kaliningrad, and Ventspils but lagged behind Tallinn. Among the ports of the three Baltic States, Klaipėda enjoyed the top ranking in terms of container handling in 2010.

The Port of Klaipėda operates in the environment marked by fierce competition which spurs the upgrade of technologies and improvement of service quality in order to attract more cargo. In turn, the modernisation of the port itself offers better business conditions for all the companies operating in the port.

A positive change in freight handling volume is largely influenced by freight handling companies which enhance the capacity, employ modern technologies, and adjust service fees. The companies seek for minimum operational costs subject to the best quality of services to be provided.

#### Freight handling by Eastern Baltic Sea ports, million tons

	Seaport	2009	2010	Change, percent
1.	Primorsk	79,0	77,6	-2,0
2.	St. Petersburg	50,4	58,1	+15,2
3.	Tallinn	31,6	36,6	+16,0
4.	Klaipėda	27,9	31,3	+12,2
5.	Riga	29,7	30,5	+2,5
6.	Ventspils	26,6	24,8	-6,9
7.	Kaliningrad	12,4	13,8	+11,6
8.	Būtingė	8,4	9,0	+7,5
9.	Liepāja	4,4	4,4	+0,1
	<b>Total</b>	<b>270,5</b>	<b>286,0</b>	<b>+5,7</b>

Source: Klaipėda State Seaport Authority, 2011

#### Strategic projects

Growing volumes of freight handling and transit cargo suggest that the Port of Klaipėda must look for new ways to increase its capacity. The Government has decided to build a new LTL3.5bn deep-sea port capable of receiving larger vessels.

One more project is aimed at building a new port in Šventoji, some 20 kilometres north of Klaipėda, for small ships and yachts. The works started in 2010 and the official opening of the port in Šventoji took place on June 11, 2011. The new port now features 72 mooring spots equipped with power and water supply, as well as two container-type houses for the port's administration and supervising institutions. The LTL224m project is financed by the EU Structural Funds and the Klaipėda State Seaport Authority. The project is to be completed in 2015.

## Airports

Lithuania offers three international airports for air carriers, in Vilnius, Kaunas, and Palanga. The air transport sector is controlled by the Ministry of Transport and Communications which is in charge of setting its development policies. Airports are run by the three state-owned enterprises, while another state-owned company of strategic importance, Oro Navigacija (Air Navigation) provides air traffic management, communication and flight control services.

#### Operating results

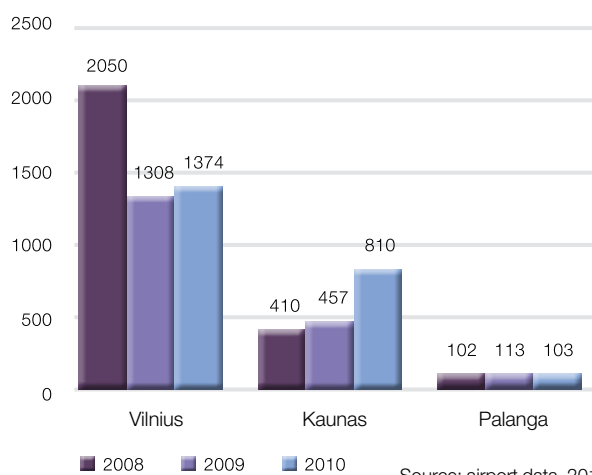
Passenger and cargo handling, as well as non-aviation services are the three main aspects which can be used to assess the operating results of airports.

#### Passengers

The combined number of passengers at the Lithuanian airports soared by 22 percent to reach almost 2.3 million in 2010. Kaunas Airport posted the steepest increase in passenger volume, of 77 percent, while the number of passengers in Vilnius edged up by 5 percent and slid by 9 percent in Palanga.

London, Riga, Dublin, and Frankfurt were among the most popular destinations among travellers departing from Lithuania in 2010.

#### Passengers at airports, thousand



All the country's airports were negatively influenced by the volcano eruption in Iceland which grounded or delayed a number of flights.

Kaunas Airport advanced considerably by seizing a larger market share, of more than 35 percent in 2010 from 24 percent a year ago, in terms of passengers. The expansion was spurred by Ireland's low-cost carrier, Ryanair, which established its base in Kaunas.

Positive developments in Vilnius were partly offset by the bankruptcy of Star1 Airlines. On the other hand, Vilnius Airport introduced a more flexible tariff policy shortly after which led to signing a contract with Wizzair, a Hungarian low-cost airline.

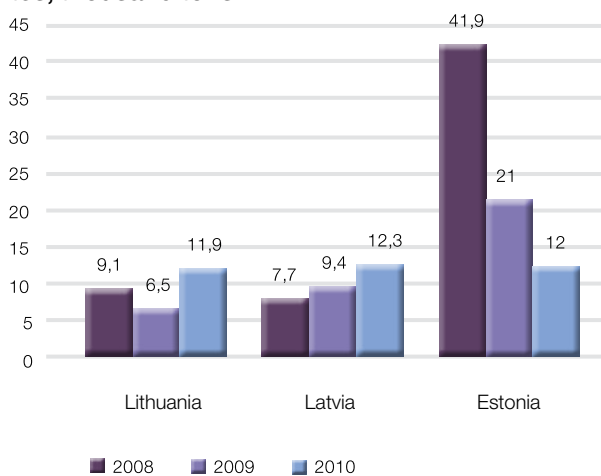
All in all, the number of direct flights from Lithuania stood at 18 at the end of 2010.

## Freight transportation

In Lithuania, the air cargo market is fairly small while the competition between the country's airports is virtually non-existent in this field. In Vilnius, most of cargo is carried inside aircraft baggage compartments, while in Kaunas cargo is handled mainly by private operators. Due to those reasons, the most objective comparison could be made at the country level including Latvia and Estonia.

The comparison of Lithuanian, Latvian and Estonian airports in the field of cargo handling is shown below.

### Freight handling at airports across the Baltic States, thousand tons



Cargo volumes at airports are greatly influenced by general economic developments. In 2010, the overall air cargo handling in Lithuanian went up due to a notable increase in foreign trade. Moreover, Kaunas Airport handled China-bound cargo for eleven weeks in 2010 as part of the contract with Hoptrans, a logistics company.

## Non-aviation services

According to market surveys, non-aviation services, which include advertising, catering, car parking, retail trade, car rent, accommodation etc., normally account for more than 50 percent of all revenue generated by airports worldwide. Moreover, this type of revenue has been gradually increasing in many countries.

Non-aviation revenue at Kaunas Airport amounted to LTL4.6m in 2010 topping the income from services directly related to aviation. Compared to 2009, the non-aviation revenue almost doubled in Kaunas. Car parking fees and incomes from rent of office space and shops generated the largest portion of revenue for Kaunas Airport.

In Vilnius, non-aviation income accounted for a mere 20 percent of all revenue in 2010 which points to a vast growth potential. However, Vilnius Airport needs to accomplish land planning procedures before offering more opportunities for different non-aviation businesses.

## Income by type of operations, million litas

	2009		2010	
	Aviation services	Non-aviation services	Aviation services	Non-aviation services
Vilnius	60,5	11,5	42,3	11,8
Kaunas	3,9	2,4	3,6	4,6

Source: airport data, 2011

## Strategic projects

In the summer of 2010, Lithuania and Poland signed a protocol of intent to start the cooperation in the development of the Functional Airspace Block in the Baltic region. FAB is a key mechanism of the Single European Sky program aimed at a more rational organisation of airspace and service provision poised to meet the expectations of the airspace users.

A common institution would provide airspace control and other services, when possible. A feasibility study concerning the bilateral FAB cooperation between Lithuania and Poland is to be completed in 2011. The document will evaluate the prospects of the FAB agreement as well as its practical and technical aspects. The cooperation is set to reduce the number of delayed flights and increase the availability of airspace while boosting the efficiency of services.

The modernisation of Kaunas Airport went on in 2010 the main project there being the upgrade of a runway. All in all, LTL18.5 has been spent for the modernisation with 85 percent of the financing drawn from the EU funds.

Vilnius Airport accomplished several marketing and public relations projects to boost general awareness of Vilnius and Lithuania. As part of the program, the new website, rechargeinvilnius.com, was launched to provide information about events in Vilnius. The new service enjoys considerable popularity among users in Europe.

The airport continued its modernisation program by installing new runway light systems and preparing for the upgrade of the runway itself. To boost the non-aviation activity, the airport has offered more areas for café owners and retailers. Apart from that, a new 107-place car parking was opened.

## Post

Lietuvos Paštas (Lithuanian Post) enjoys exclusive rights to provide a number of services in Lithuania, such as collection, distribution and delivery of domestic and international mail, and advertising material, up to 50 grams in weight. Other companies operating in the market must charge fees at least 2.5 times higher than Lithuanian Post for the same services, according to the Law on Post.

However, the Lithuanian postal service market faces gradual liberalisation from the 1st of January 2013 with Lithuanian Post losing its partial monopoly position. With this in mind, the Government must ensure a smooth transition to the competitive market and maintain quality of the universal postal services.

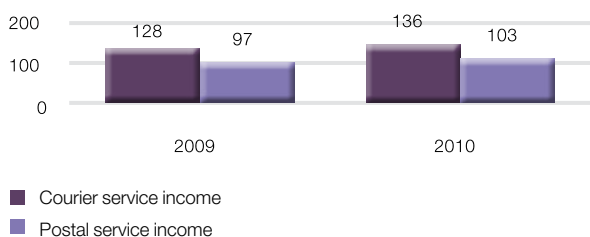
### Operating results

A total of 71 companies providing mail and courier services operated in Lithuania at the end of 2010, a decrease of almost 15 percent from a year ago, according to the Communications Regulatory Authority (CRA). Of these, twelve companies offered postal services.

The overall volume of postal and courier services, in mailing units including delivery of advertising material, shrank by almost 12 percent, to 74.1 million units in 2010 from 83.9 units a year ago. On the contrary, the total number of parcels delivered by couriers soared by 24 percent in 2010 to reach 5.1 million from 4.1 million in 2009. The volume of incoming mail and parcels was up by 2.6 percent and 9.2 percent respectively, while the total number of outgoing parcels rose by 25.6 percent. The volume of outgoing mail shrank by 12.7 percent in 2010.

The courier mail and parcel market was dominated by private companies in 2010. They delivered 81 percent of all outgoing parcels and 78 percent of all incoming parcels. In turn, Lithuanian Post took the leading role in the mail segment as the company delivered 69 percent of all outgoing and 88 percent of all incoming mail.

In terms of revenue, the total mailing and courier market grew by 5.6 percent to reach LTL238.6m, compared to LTL226.1m in 2009. Courier service providers posted a 5.6 percent increase in aggregate revenue which stood at LTL135.6m in 2010, while the companies operating in the mail sector reported a 5.5 percent rise in revenue, to LTL103m.



Source: Communications Regulatory Authority, 2011

### Mail and courier market by revenue, million litas

Lithuanian Post accounted for 45 percent of the total mail and courier market in terms of revenue, leaving 55 percent for private companies, according to the CRA. Lithuanian Post's income from mail services was more than ten times higher than that from courier services in 2010.

Growth of the company's revenue from parcel delivery reflects greater overall scope of operations in this segment. On the other hand, higher income from mail service points to higher average prices as the total volume of services, in units, decreased by almost 12 percent.

### Strategic projects

The postal service market in Lithuania prepares for gradual liberalisation from the beginning of 2013. Simultaneously, similar changes are to be implemented in the Czech Republic, Greece, Cyprus, Latvia, Luxembourg, Hungary, Malta, Poland, Romania and Slovakia. Lithuania, just like other countries, has been busy with preparing related legislation. The proposed changes to the Law on Post are to be presented by the end of 2011 by a working group set by the Ministry of Transport and Communication.

The working group comprised the representatives of a number of institutions and organisations working in or related to the postal service market, such as the Express Carriers Association, the Lithuanian Logistics Association, the Courier Service Association, Lithuanian Post etc.

Public discussions regarding the proposed changes were launched in February 2010. Simultaneously, a broad harmonisation process was started involving a number of State and Government institutions.

The new law is designed to spur the development of the sector by liberalising the postal service market from the 1st of January 2013. Particularly, the Government wants to ensure sustainable operations of the postal service infrastructure and uninterrupted delivery of universal postal services throughout the country. The second round of harmonisation of the new legislation, involving state institutions and independent experts, is to be carried out by the end of 2011.

To ensure a more efficient control of the market, which will translate into a stricter supervision over service providers in the first place, the Ministry of Transport and Communication has been implementing a number of measures in order to ensure higher service quality and broader responsibility of the companies operating in the sector. In particular, the CRA has been granted a right to apply sanctions over the service providers which neglect the requirements set in the legislation which regulates their operations.

Strategic projects in the transport sector are described below.

Project	Project description	Investment
Public logistic centres	Four public logistic centres in Vilnius, Kaunas, Šiauliai and Klaipėda will be built	LTL121m in Vilnius LTL90m in Kaunas LTL48m in Šiauliai LTL48m in Klaipėda
Via Baltica	Road segments in Lithuania will be reconstructed and upgraded	LTL500m
Rail Baltica	A railway between Finland and Poland, via Lithuania, Latvia and Estonia, will be built	LTL950m
Deep-sea port in Klaipėda	A new seaport for large vessels will be built	LTL3.5bn
Port in Šventoji	A new port for small boats and yachts will be built	LTL224m
Reconstruction of the road between Vilnius and Utena	60 km of road will be upgraded	LTL121m

Total estimated value of the projects is LTL5.6bn

OTHER



## Overview

This section comprises the state-owned enterprises which can not be attributed to transport, energy, or forestry sectors. The companies, several of which are presented in more detail below, are involved in various areas of activity, such as expertise and quality assessment, plate-marking, specific repairs, coining, cartridge production etc. Moreover, some of them work in the fields of data management, publishing, healthcare, insurance, licensing, and experimental engineering.

All in all, there are 70 state-owned enterprises which do not belong to the three main sectors. Four of them, namely the Lithuanian Radio and Television Centre, Jonavos Grūdai (a grain storage), Šilutės Polderiai (Šilutė Polders), and Giraitės Ginkluotės Gamykla (Giraitė Armament Factory), are of particular importance for the country's national security.

### Largest enterprises by assets, turnover and personnel

State enterprise	Turnover in 2010, LTL thousand	Assets in 2010, LTL thousand	Number of employees	State interest, percent
Deposit and Investment Insurance	990	1 546 054	10	100
Lithuanian Oil Product Agency	57 907	398 699	49	100
Property Bank	5 929	278 823	63	100
State Property Fund	4 579	13 092	106	100
Agriculture Loan Warranty Fund, UAB	3 279	259 122	19	100
Vilnius Castles Directorate	572	248 144	11	100
Mortgage Insurance, UAB	12 105	175 478	37	100
Lithuanian Radio and Television Centre, AB	67 544	157 874	399	100
Toksika, UAB	3 635	138 500	63	92.5
Lithuanian Agriculture and Food Product Market	14 936	120 031	50	100
Centre of Registers	83 766	81 162	1613	100
Giraitė Armament Factory	14 937	61 862	147	100
Investment and Business Warranties, UAB	4 911	56 151	25	100
Regitra	67 021	54 525	496	100
Lithuanian Exhibition and Congress Centre Litexpo, UAB	11 813	47 766	126	98.7
Lithuanian Monuments	15 478	24 525	68	100
Mint of Lithuania, UAB	34 467	2 216	55	100
Total, the above enterprises	403 790	3 664 024	3 337	100
The above enterprises vs. all companies in this sector, percent	67.7	91.1	49.4	

## Property Bank and the State Property Fund

Following the Parliament's decision, the legal status of the Property Bank was changed to a state enterprise from a public company from the 1st of April 2011. The change has been implemented in line with the new strategy aimed at centralised management of state-owned property which has been adopted by the Government and covers the period through 2016. Remarkably, the strategy calls for the merger of the Property Bank and the State Property Fund.

The new entity which will be created after the merger will implement the State policies related to the management of state-owned property. It will also continue privatisation of state assets and will be involved in the administration of bank loans as far as the interests of the State are concerned. The merger of the two institutions is to be completed by mid-2012. This is why the two organisations are outlined in a single chapter.

Administration of the state-guaranteed loans and other liabilities is one of the key activity areas of the Property Bank. Apart from that, it deals with the European Union's funds and other financing that has been used by Lithuanian companies in contradiction to the domestic and European legislation. In such cases, the eventual objective is returning the money to the State budget.

The Property Bank's responsibilities also include renovation, maintenance and management of the state-owned prop-

erty. For instance, the renovation of several buildings of the Vilnius Regional Police Headquarters and the construction of the Obstetrics and Surgery Unit at the Vilnius University Hospital in Santariškės is to be completed by the end of 2011. In addition to that, several other new buildings will be erected under the supervision of the Property Bank. These projects are financed with the money received from sale of property no longer used by public organisations.

The State Property Fund, established in 1998, is responsible for the privatisation of state-owned enterprises and other assets. The Fund manages the list of public assets put for sale, prepares information bulletins and sends them out to potential investors. It also signs privatisation deals in the name of the Government and supervises their implementation so that all financial and other conditions embedded in the privatisation contracts are observed. In 2010, a total of 145 companies and other state-owned entities were privatised of which 138 were controlled by the central Government while the remaining seven were run by municipalities.

In certain instances, the Fund is authorised to restructure state-owned enterprises, especially when the reshuffle helps boost their value or simplifies the procedures of privatisation. On the other hand, the Fund acts as a liquidator of bankrupt enterprises. In 2010, the Fund supervised liquidation procedures in 23 companies.

Method of privatisation	Number of objects		Privatisation price, LTL thousand	
	2009	2010	2009	2010
Open auction	93	137	21 299	26 366
Direct negotiations	-	1	-	48.8

Source: State Property Fund

In 2011, the Fund plans to complete 140 privatisation deals earning an estimated 23,000 litas in pre-tax profits on a total revenue of LTL5.31m.

## Lithuanian Radio and Television Centre

Controlled by the Ministry of Transport and Communications, this organisation is one of the largest state-owned enterprises by revenue outside the three main business sectors. The LRTC provides radio and television broadcasting services and offers wireless data transmission services throughout the country. Most of the LRTC's operations fall under the supervision of the Communications Regulatory Authority.

In the field of radio and television broadcasting, the LRTC enjoys monopoly position, hence the fees charged for its services can not be higher than the corresponding costs, according to the related legislation.

The LRTC launched its wireless data transmission services

in 2002 employing the WiMAX technology. The broadband service, under the Mezon brand, is now the second-largest in Lithuania in terms of coverage reaching about 65 percent of the country's residents. In this highly competitive market, Mezon is rivalled by several other broadband service providers. In order to attract new customers, the LRTC plans to build a number of low-range transmission stations which will enable it to expand the coverage area considerably.

By the end of 2012, the analogue television broadcasting will be replaced by digital terrestrial broadcasting in Lithuania. The latter one will ensure more effective utilisation of radio frequency and allow expanding the portfolio of services offered. To sustain high-level digital services, the LRTC will expand its DVB-T network throughout the country via installing new transmission stations. The number of transmission stations is to reach 91 by the end of 2013, compared to 61 planned for the end of 2011. The digital television network will cover as much as 95 percent of the country's territory by the end of 2013.

## Giraitė Armament Factory

Based in the vicinity of Kaunas, the Giraitė Armament Factory (GAF) is the only enterprise in Lithuania manufacturing the NATO-standard production, mainly cartridges. The company exports about 90 percent of its output to Europe and the United States. Armed forces of the NATO member states as well as other military organisations and special forces of a number of countries are among the company's key customers.

However, GAF's production capacity is insufficient to offer larger batches of cartridges at lower prices. This puts a substantial limit on the factory's capability to compete with other suppliers.

Several scenarios, including privatisation and finding a strategic partner for the company, have been discussed over recent years. The main objective is to expand its manufacturing capacity which, in turn, would allow the company enter new markets and cut costs by purchasing materials in larger quantities and at lower prices.

In 2011, the company is selling cartridges manufactured in 2009 and even earlier which have been stored in warehouses. Simultaneously, GAF is designing its new development strategy aimed at reducing costs and setting new objectives.

## Regitra

Management of the country's car and car owners' registers and registering vehicles in Lithuania are the two main areas of activity of Regitra, the state enterprise under the Ministry of the Interior.

To ensure a better training for future drivers, Regitra launched a free online service in 2011 which provides data about typical mistakes made by people while passing the driving licence exams. The information can be used by all drivers' schools in Lithuania so that they can alter their programs accordingly and put a specific emphasis on certain aspects of driving skills during training.

In 2011, another computerised system, which allows centralised accumulation and analysis of examination data, was put into use. It will help improve the process of examination.

## Lithuanian Exhibition and Congress Centre

Litexpo is the largest organisation of its kind in the Baltic States in terms of number of events, revenue, and the total area of exposition available. Operating under the Ministry of Economy, Litexpo organises more than 20 international exhibitions and about 500 conferences, seminars and other events each year.

Litexpo offers a total of 32,700 square metres of exhibition area in five halls and on external grounds.

The centre faces plenty of events in the second half of 2013 and before as Lithuania will take over the presidency of the Council of the European Union from July 1, 2013 for six months. According to the schedule drafted by the Ministry of Foreign Affairs, many top level events will take place at Litexpo during that period. Prior to that, the centre will undergo substantial modernisation which will be financed with European Union and the Ministry of Economy funds.

## Lithuanian Mint

Controlled by the Bank of Lithuania, the mint produces cent and litas coins for official circulation. In addition to that, the com-

pany manufactures metal dies and punches for various purposes, as well as envelope address marking plaques, clichés for printing houses and performs other complex engraving work. The company has the exclusive right to make relief embossers with the emblem of the Republic of Lithuania.

In 2011, the Lithuanian Mint offered a new series of silver medals dedicated to the European Basketball Championships held in Lithuania. In addition to that, two coins for collectors were minted in 2011. The first one is dedicated to the Lithuanian theatre while the second one commemorates the 150th anniversary of Gabrielė Petkevičaitė-Bitė, Lithuania's famous women writer.

## Financial and operating results

Thousand LTL	Other	
PROFIT AND LOSS STATEMENT	2009	2010
Sales revenue	552 865	596 758
Cost of goods sold	447 383	490 082
<b>Gross profit (loss)</b>	<b>105 482</b>	<b>106 676</b>
Gross profit margin	19,1 %	17,9 %
Operating cost	143 363	139 686
<b>Operating profit (loss)</b>	<b>-37 881</b>	<b>-33 010</b>
EBIT margin	-6,9 %	-5,5 %
<b>EBITDA</b>	<b>29 425</b>	<b>31 895</b>
EBITDA margin	5,3 %	5,3 %
<b>Net profit (loss)</b>	<b>-31 692</b>	<b>-24 934</b>
Net profit margin	-5,7 %	-4,2 %
<b>Minority interest</b>	<b>725</b>	<b>630</b>
BALANCE SHEET	2009	2010
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>2 207 166</b>	<b>2 871 336</b>
Intangible assets	16 660	16 221
Tangible assets	1 020 502	1 022 868
Financial assets	1 131 380	1 578 624
Other fixed assets	38 624	253 623
<b>Current assets</b>	<b>1 400 520</b>	<b>1 149 624</b>
Inventories and prepaid expenses	665 734	471 598
Accounts receivable in one year	121 786	98 891
Other current assets	549 847	452 865
Cash and cash equivalents	63 154	126 270
<b>TOTAL ASSETS</b>	<b>3 607 686</b>	<b>4 020 960</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>1 065 475</b>	<b>1 094 866</b>
Minority shareholder equity	14 439	15 082
<b>Subsidies</b>	<b>402 503</b>	<b>426 650</b>
<b>Liabilities</b>	<b>2 139 707</b>	<b>2 499 444</b>
Long-term liabilities	1 845 514	2 236 761
Short-term liabilities	294 193	262 683
Financial liabilities	309 931	323 278
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 607 686</b>	<b>4 020 960</b>
Rodikliai	2009	2010
Debt to assets	29,5 %	27,2 %
Debt to equity	29,1 %	29,5 %
ROA**	-0,8 %	-0,6 %
ROCE**	-2,5 %	-2,1 %
ROE**	-2,7 %	-2,0 %

Other data	2009	2010
Staff	7 197	6 757
<b>Investor return</b>	<b>7 265</b>	<b>10 468</b>
Dividends	3 379	7 219
Property tax	3 886	3 248

\* Profitability ratios exclude taxes on property deducted from operating costs.

In terms of sheer number, the companies and organisations in this group account for more than half of all state-owned enterprises. However, their combined assets and revenue represent just 13 percent of the total assets owned and 9 percent revenue generated by all state-owned enterprises.

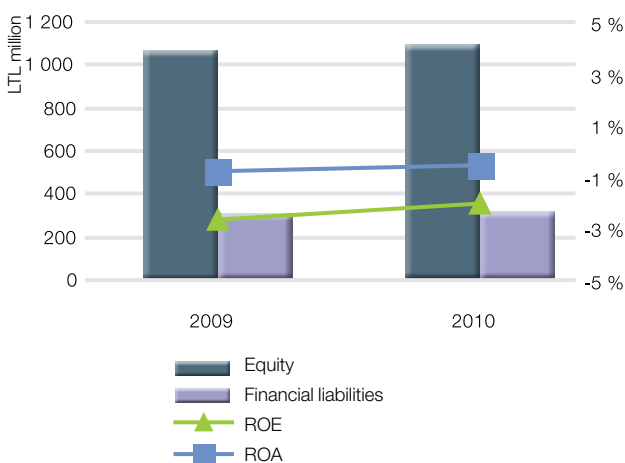
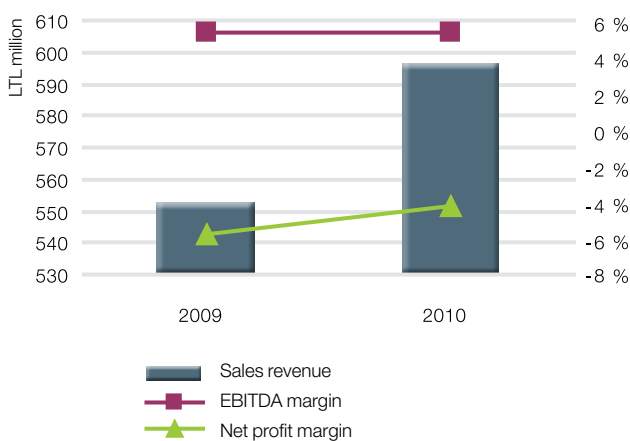
Their combined revenue went up by almost 8 percent in 2010 but profitability remained stagnant leaving this group of companies in an aggregate loss. The negative overall results, both in 2010 and 2009, were hugely influenced by Būsto Paskolų Draudimas (Housing Mortgage Insurance) which reported a

LTL44m net loss in 2010 and a LTL42m net loss in 2009.

Many of the remaining companies operated profitably in 2010 as their combined net profit soared by 88 percent compared to the respective figure one year ago, to reach LTL19.6m. The rise in profits was mainly influenced by a healthy revenue growth which outpaced the rise of costs. The combined dividends more than doubled to LTL7.2m in 2010.

Despite that, many enterprises in this group show considerable fluctuations in their annual financial and operating results. This fact points to the urgent need to boost their efficiency, partly by separating their commercial and non-commercial operations as well as setting objective and realistic targets. More radical measures should be taken against the companies which have been reporting loss for several years in a row.

The charts below show the main trends related to the changes in combined revenue, EBIT and net profit margins, as well as equity, financial liabilities, return on equity, and return on assets in 2009 and 2010.



# COMPANIES IN DETAIL





## LITHUANIAN RAILWAYS

As an independent state-owned company, Lietuvos Geležinkeliai (Lithuanian Railways) started its operations from the 1st of January 1992. The company is a member of several international organisations, including the International Rail Transport Committee (CIT), the Community of European Railway and Infrastructure Companies (CER), and the International Union of Railways (UIC).

### Operations

Lithuanian Railways offers freight and passenger transportation services in Lithuania and on international routes. In addition to that, the company maintains and develops the national railway network.

In the freight market, the company's customer base is highly concentrated as its cargo volume and revenue largely depends on several key clients, such as Orlen Lietuva (oil products), Lifosa (fertilisers), Akmenės Cementas (cement), Achema (fertilisers), Dolomitas (dolomite).

The overall volume of freight transported by Lithuanian Railways stood at 48.1 million tons in 2010, up by almost 13 percent from a year ago. Improved overall economic conditions and a more flexible policy of tariffs were the two key factors behind the increase.

In the passenger market, Lithuanian Railways reversed the trend of steep slump in annual numbers, recorded in 2005 through 2009, carrying a total of 4.36 million passengers in 2010. New double-deck train cars and marketing campaigns helped to maintain the level of passengers which equaled the respective result in 2009.

## Top management



### Chief executive officer

Stasys Dailydka

### Board members

Arūnas Štaras (chairman), Stasys Dailydka, Simas Garuolis, Paulius Jankauskas, Tomas Karpavičius

## Financial results

Total revenue stood at just over LTL1.4bn in 2010, up by more than 18 percent from a year ago. Freight transportation revenue accounted for almost 86 percent of the total. Average costs per 1,000 ton-kilometres of freight edged up to reach LTL82, compared to LTL79 in 2009, primarily due to higher fuel prices.

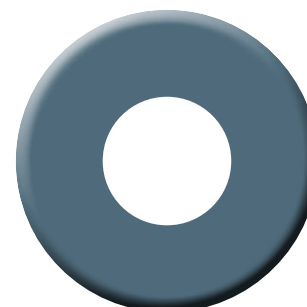
Net profit soared almost five-fold to LTL68.9m despite a huge loss, of nearly LTL140m, from passenger transportation. The company's investment totalled LTL640m in 2010.

Dividends amounted to LTL56.4m, which represents a 12.5-fold increase compared to 2009.

<http://www.litrail.lt>

Thousand LTL	Lietuvos geležinkeliai AB	
	2009	2010
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	1 185 573	1 404 243
Cost of goods sold	1 034 611	1 166 978
<b>Gross profit (loss)</b>	<b>150 962</b>	<b>237 266</b>
Gross profit margin	12,7 %	16,9 %
Operating cost	128 080	151 701
<b>Operating profit (loss)</b>	<b>22 882</b>	<b>85 564</b>
EBIT margin	1,9 %	6,1 %
<b>EBITDA</b>	<b>334 713</b>	<b>417 580</b>
EBITDA margin	28,2 %	29,7 %
<b>Net profit (loss)</b>	<b>14 036</b>	<b>68 889</b>
Net profit margin	1,2 %	4,9 %
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>3 803 120</b>	<b>4 154 389</b>
Intangible assets	15 192	14 871
Tangible assets	3 775 612	4 122 800
Financial assets	6 018	6 130
Other fixed assets	6 298	10 587
<b>Current assets</b>	<b>337 964</b>	<b>355 934</b>
Inventories and prepaid expenses	121 478	158 568
Accounts receivable in one year	146 449	129 406
Other current assets	40 961	4 044
Cash and cash equivalents	29 076	63 916
<b>TOTAL ASSETS</b>	<b>4 141 084</b>	<b>4 510 323</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>2 198 663</b>	<b>2 619 474</b>
Minority shareholder equity	0	0
<b>Subsidies</b>	<b>1 078 626</b>	<b>1 082 333</b>
<b>Liabilities</b>	<b>863 795</b>	<b>808 515</b>
Long-term liabilities	436 419	464 804
Short-term liabilities	427 376	343 711
Financial liabilities	503 969	504 402
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4 141 084</b>	<b>4 510 323</b>
<b>Key ratios</b>		
Debt to assets	53,1 %	58,1 %
Debt to equity	22,9 %	19,3 %
ROA	0,3 %	1,5 %
ROCE	0,8 %	2,7 %
ROE	0,6 %	2,6 %
<b>Other data</b>		
Staff	11 800	11 632
Number of top executives	6	6
Average gross monthly salaries of top managers, in LTL	~12 734	11 790
Dividends	4 500	56 400
<b>Shareholders</b>		
State interest	100,0 %	100,0 %

## Shareholders



■ Interest owned by the State – 100 percent



LIETUVOS PAŠTAS

## LITHUANIAN POST

Lietuvos Paštas (Lithuanian Post), as a separate company, was established in 1992 during a major reshuffle of the Lithuanian communications system. The company is a member of the Universal Postal Union, the Association of European Public Postal Operators (PostEurop) and takes part in the activities of the International Post Corporation, and the Nordic Postal Union.

### Operations

Lithuanian Post provides mail delivery and courier services throughout Lithuania alongside press subscription delivery services in remote rural areas. In terms of its customers, the company covers the entire country by delivering services to all types of companies and organisations, public institutions, and private individuals.

The overall service volume, in units, stood at just over 202 million in 2010, up by 4.4 percent compared to the respective figure one year ago. The decrease was primarily caused by the ongoing fundamental shift in people's behaviour as they opt for electronic communication more often. The company posted lower activity levels in all the key sectors, including mail, courier, and financial services. Delivery of advertising material was the only segment to stand out showing a 41 percent increase over the respective figure in 2009.

### Financial results

Sales revenue retreated by 13.4 percent to stand at LTL174.1m in 2010 due to lower volumes in all key business areas as the company's market share shrank because

### Top management



#### Chief executive officer

Lina Minderienė

#### Board members

Rimvydas Vaštakas (chairman), Paulius Jankauskas, Alminas Mačiulis, Tomas Pilukas, Jurgita Šoblinskienė

of the competition with private companies. On the other hand, Lithuanian Post worked towards business optimisation, through the closure of some of its regional outlets and greater centralisation of operations. This helped reduce the overall operating costs by as much as 43 percent and trim the aggregate loss more than six-fold, to LTL10.2m.

A considerable portion of the overall loss is generated by the press subscription delivery in rural areas, the service which the company provides as part of its non-commercial activity. In 2010, the total loss from these operations amounted to LTL25.6m.

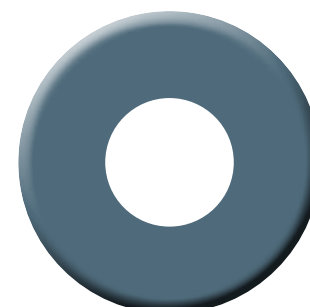
The loss-making Lithuanian Post has not paid any dividends for several recent years. However, the company plans to report an overall profit in 2011.

Lithuanian Post is set to boost the quality of services by introducing new technology-based solutions, such as self-service parcel registration terminals, as well as new courier, financial, and on-line services.

<http://www.post.lt>

Thousand LTL	Lietuvos paštas AB	
	2009	2010
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	201 110	174 137
Cost of goods sold	190 709	141 486
<b>Gross profit (loss)</b>	<b>10 402</b>	<b>32 651</b>
Gross profit margin	5,2 %	18,8 %
Operating cost	75 446	45 782
<b>Operating profit (loss)</b>	<b>-65 044</b>	<b>-13 131</b>
EBIT margin	-32,3 %	-7,5 %
<b>EBITDA</b>	<b>-51 495</b>	<b>-3 201</b>
EBITDA margin	-25,6 %	-1,8 %
<b>Net profit (loss)</b>	<b>-63 033</b>	<b>-10 230</b>
Net profit margin	-31,3 %	-5,9 %
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>184 181</b>	<b>177 260</b>
Intangible assets	6 356	4 177
Tangible assets	177 726	171 274
Financial assets	98	89
Other fixed assets	0	1 720
<b>Current assets</b>	<b>57 436</b>	<b>42 506</b>
Inventories and prepaid expenses	4 473	5 468
Accounts receivable in one year	28 908	27 343
Other current assets	0	0
Cash and cash equivalents	24 055	9 696
<b>TOTAL ASSETS</b>	<b>241 617</b>	<b>219 766</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>127 773</b>	<b>113 074</b>
Minority shareholder equity	0	0
<b>Subsidies</b>	<b>150</b>	<b>14</b>
<b>Liabilities</b>	<b>113 694</b>	<b>106 677</b>
Long-term liabilities	10 408	24 756
Short-term liabilities	103 286	81 921
Financial liabilities	19 192	21 972
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>241 617</b>	<b>219 766</b>
<b>Key ratios</b>		
Debt to assets	52,9 %	51,5 %
Debt to equity	15,0 %	19,4 %
ROA	-26,1 %	-4,7 %
ROCE	-44,3 %	-9,7 %
ROE	-49,3 %	-9,0 %
<b>Other data</b>		
Staff	7 856	6 870
Number of top executives	4	6
Average gross monthly salaries of top managers, in LTL	n. d.	5 671
Dividend paid	0	0
<b>Shareholders</b>	<b>2009</b>	<b>2010</b>
State interest	100,0 %	100,0 %

### Shareholders



■ Interest owned by the State – 100 percent



## KLAIPĖDA STATE SEAPORT AUTHORITY

The Klaipėda State Seaport Authority, which manages the port's infrastructure, was established in 1991. The KSSA is a member of four international organisations which unite similar institutions in Europe and the Baltic States.

### Operations

The KSSA supervises and manages the Port of Klaipėda, including its land, water area, berths and piers, quay equipment, navigation channels and other infrastructure. The KSSA collects infrastructure fees, rents land inside the port, prepares and carries out port development and upgrade projects, and implements security measures.

Seaports in Riga, Tallinn, Kaliningrad and other cities along the eastern shore of the Baltic Sea are the most important competitors for the Port of Klaipėda.

The KSSA's largest customers are Klaipėdos Nafta (Klaipėda Oil), Klaipėdos Jūrų Krovinių Kompanija (Klaipėda Stevedoring Company), and Bega, another private stevedoring firm.

A total of 31.3 million tons of cargo was handled in the Port of Klaipėda in 2010 which represents a 12.2 percent rise over the respective figure in 2009. The overall improvement was recorded despite lower oil handling volumes which normally account for about one-third of the total freight. This was compensated by a considerable increase in all other types of cargo, primarily due to better overall economic conditions in Lithuania and neighbouring countries.

In 2010, the KSSA continued several investment projects aimed at building new and upgrading existing quays. In addition to that, preparatory works related to the opening of the new seaport in Šventoji and the construction of the new open-sea port in Klaipėda were carried out. The KSSA was also involved in the planning of land and infrastructure for the Public Lo-

### Top management



#### Chief executive officer

Eugenijus Gentvilas

#### Board members

Arūnas Štaras (chairman), Rolandas Bražinskas, Juozas Darulis, Eugenijus Gentvilas, Paulius Jankauskas

gistics Centre to be built in the territory of the Port of Klaipėda.

### Financial results

The KSSA's total revenue amounted to LTL148.4m in 2010, up by 3.5 percent compared to the respective figure one year ago. The rise in revenue was primarily caused by a higher number of vessels handled. On the other hand, the overall operating costs soared by 26 percent, mostly due to seabed cleaning operations and the revaluation of fixed assets. In addition to that, the financial costs rose as a result of negative trends in currency exchange rates.

Total profits went down by 22 percent to LTL54.5m in 2010, however, the KSSA's efficiency, measured in operating revenue per employee, edged up for the third year in a row, to LTL560,000, which represents a 5 percent improvement compared to the respective indicator in 2009.

Like all other state enterprises, the KSSA does not pay dividends, according to the legislation in force.

The KSSA's key objectives are related to the integration into the European transport networks and the development of the port infrastructure while ensuring safe and secure operations. Drawing more transit freight from Belarus and Russia are among top priorities as well.

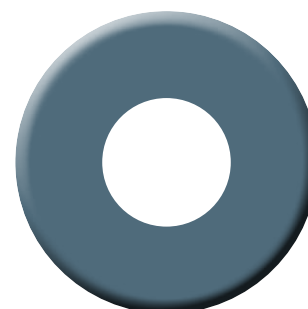
<http://www.portofklaipeda.lt>

Thousand LTL Klaipėdos valstybinio jūrų uosto direkcija VI		
PROFIT AND LOSS STATEMENT	2009	2010
Sales revenue	143 308	148 393
Cost of goods sold	-	-
<b>Gross profit (loss)</b>	<b>143 308</b>	<b>148 393</b>
Gross profit margin	100,0 %	100,0 %
Operating cost	68 425	86 256
<b>Operating profit (loss)</b>	<b>74 883</b>	<b>62 137</b>
EBIT margin	52,3 %	41,9 %
<b>EBITDA</b>	<b>110 171</b>	<b>97 884</b>
EBITDA margin	76,9 %	66,0 %
<b>Net profit (loss)</b>	<b>70 025</b>	<b>54 468</b>
Net profit margin	48,9 %	36,7 %
BALANCE SHEET	2009	2010
ASSETS		
<b>Fixed assets</b>	<b>1 073 421</b>	<b>1 096 205</b>
Intangible assets	3 991	3 429
Tangible assets	1 069 430	1 092 776
Financial assets	0	0
Other fixed assets	0	0
<b>Current assets</b>	<b>70 766</b>	<b>92 987</b>
Inventories and prepaid expenses	637	2 087
Accounts receivable in one year	32 717	27 980
Other current assets	6 000	0
Cash and cash equivalents	31 412	62 920
<b>TOTAL ASSETS</b>	<b>1 144 187</b>	<b>1 189 192</b>
EQUITY AND LIABILITIES		
<b>Total equity</b>	<b>974 165</b>	<b>1 029 686</b>
Minority shareholder equity	-	-
<b>Subsidies</b>	<b>35 757</b>	<b>38 921</b>
<b>Liabilities</b>	<b>134 265</b>	<b>120 585</b>
Long-term liabilities	103 976	88 483
Short-term liabilities	30 289	32 102
Financial liabilities	123 008	108 138
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 144 187</b>	<b>1 189 192</b>
Key ratios	2009	2010
Debt to assets	85,1 %	86,6 %
Debt to equity	12,6 %	10,5 %
ROA*	6,3 %	4,7 %
ROCE*	7,0 %	5,6 %
ROE*	7,3 %	5,4 %
Other data	2009	2010
Staff	270	266
Number of top executives	5	5
Average gross monthly salaries of top managers, in LTL	11 215	8 820**
Property tax	1 785	1 721
Shareholders	2009	2010
State interest	100,0 %	100,0 %

\* Profitability ratios exclude taxes on property deducted from operating costs.

\*\* Average monthly salary for first three quarters of 2010.

### Shareholders



■ Interest owned by the State – 100 percent



## KLAIPĖDOS NAFTA

Klaipėdos Nafta (Klaipėda Oil), a public company, was established in 1994 by the Lithuanian firm Naftos Terminalas (Oil Terminal) and Lancaster Steel Inc, a US-based company, as part of the oil terminal reconstruction project. Klaipėda Oil is listed on the Nasdaq OMX Vilnius Stock Exchange.

### Operations

The company specialises in oil product handling through the terminal it operates inside the Port of Klaipėda, and related services, such as crude oil storage, unloading of imported petrol and diesel fuel into tank-trucks, assessment of oil products' quality, tanker mooring and supplying them with fuel and water. The company handles oil products imported from Russia and Belarus for their re-export to the West.

Orlen Lietuva, an operator of the Lithuania's sole oil refinery, is Klaipėda Oil's main customer while its key competitor is the oil product terminal in Ventspils, Latvia.

In 2010, Klaipėda Oil handled a total of eight million tons of oil products which represents a minute 3 percent increase compared to the overall handling volume in 2009. The annual results were slightly hampered by extremely cold weather in December 2010 which disrupted normal oil handling operations.

### Financial results

The company's total revenue grew by 6 percent to LTL123m in 2010, mostly due to improved economic sentiment and higher oil handling volumes. The com-

### Top management



#### Chief executive officer

Rokas Masiulis

#### Board members

Romas Švedas, Arvydas Darulis, Kęstutis Žilėnas, Virgilijus Poderys, Rokas Masiulis

#### Supervising council members

Valentinas Milaknis, Kęstutis Škiudas, Eimantas Kiudulas

#### Audit committee members

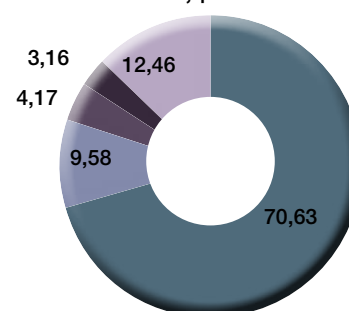
Eimantas Kiudulas,  
Simonas Rimašauskas, Mindaugas Jusius

pany's new operating principles, aimed at bypassing intermediaries, added to the positive overall results. On the other hand, total costs went up by 24 percent, largely due to asset write-offs. Higher power and fuel prices and an increase in railway transportation fees also contributed to the overall cost growth. As a result, net profit slid by 28 percent to LTL26.1m.

Total investment stood at LTL72m in 2010 as the company prepares for the construction of the new terminal for the imports of liquefied natural gas. With this goal in mind, the Government has exempted Klaipėda Oil from paying dividends. Instead, the company has been accumulating its profits by investing them in low-risk securities in Lithuania and abroad. The liquefied gas terminal is scheduled to be built by the end of 2014.

Thousand LTL	Klaipėdos nafta AB:	
	2009	2010
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	116 211	123 032
Cost of goods sold	70 851	77 765
<b>Gross profit (loss)</b>	<b>45 360</b>	<b>45 267</b>
Gross profit margin	39,0 %	36,8 %
Operating cost	5 785	17 002
<b>Operating profit (loss)</b>	<b>39 595</b>	<b>28 304</b>
EBIT margin	34,1 %	23,0 %
<b>EBITDA</b>	<b>59 843</b>	<b>59 508</b>
EBITDA margin	51,5 %	48,4 %
<b>Net profit (loss)</b>	<b>36 286</b>	<b>26 097</b>
Net profit margin	31,2 %	21,2 %
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>410 291</b>	<b>396 150</b>
Intangible assets	103	395
Tangible assets	410 113	387 590
Financial assets	0	8 124
Other fixed assets	75	41
<b>Current assets</b>	<b>56 947</b>	<b>77 756</b>
Inventories and prepaid expenses	3 892	4 290
Accounts receivable in one year	7 123	5 532
Other current assets	4 744	38 433
Cash and cash equivalents	41 188	29 501
<b>TOTAL ASSETS</b>	<b>467 238</b>	<b>473 906</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>445 319</b>	<b>455 016</b>
Minority shareholder equity	0	0
<b>Subsidies</b>	<b>0</b>	<b>0</b>
<b>Liabilities</b>	<b>21 919</b>	<b>18 890</b>
Long-term liabilities	10 783	9 271
Short-term liabilities	11 136	9 619
Financial liabilities	0	0
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>467 238</b>	<b>473 906</b>
<b>Key ratios</b>		
Debt to assets	95,3 %	96,0 %
Debt to equity	4,9 %	4,2 %
ROA	8,5 %	6,0 %
ROCE	8,9 %	6,2 %
ROE	8,1 %	5,7 %
<b>Other data</b>		
Staff	301	306
Number of top executives	5	6
Average gross monthly salaries of top managers, in LTL	20 957	18 579
Dividend paid	16 400	0
<b>Shareholders</b>		
State interest	70,6 %	70,6 %

### Shareholders, percent



- The Lithuanian State – 70.6 percent
- Achema Group – 9.6 percent
- Skandinaviska Enskilda Banken funds – 4.2 percent
- Swedbank funds – 3.2 percent
- Minor shareholders – 12.4 percent



## LITHUANIAN RADIO AND TELEVISION CENTRE

The Lithuanian Radio and Television Centre (LRTC) traces its roots to 1926 when first Lithuanian radio programmes were broadcasted. The company's contemporary history commenced in 1991. Part of the LRTC's operations are licensed and supervised by the Communications Regulatory Authority. Due to LRTC's dominant position in the radio and TV broadcasting market, the company must adjust its service fees so that they match its costs.

### Operations

The LRTC, which had enjoyed monopoly rights to render radio and TV broadcasting services using terrestrial analogue systems for several decades, operates the best-developed network throughout Lithuania. Since 2005, the company, together with Teo LT, a provider of fixed-line telephone service, has been developing the network for digital broadcasting. All the analogue broadcasting of radio and TV programmes will be switched off by the end of 2010 in Lithuania.

Apart from that, the LRTC has been developing its broadband service, under the Mezon brand, based on the WiMAX technology. In this area, LRTC is competing with the country's three operators of mobile communication networks.

### Financial results

The overall revenue amounted to LTL67.6m and was marginally lower compared to the respective figure in 2009. Net profits stood at just less than LTL1.2m which represents an improvement compared to 2009 when the com-

### Top management



#### Chief executive officer

Gediminas Stirbys

#### Board members

Paulius Jankauskas, Janina Laskauskienė, Vidas Ramanavičius, Rimvydas Vaštakas

pany reported a loss of LTL0.6m. Lower overall costs and higher revenue from non-core operations were the main factors behind the increased profitability.

According to the current legislation, the profit-making state companies must allocate dividends equalling at least 7 percent of their equity but not exceeding 80 percent of their distributable net profits.

The LRTC has been in litigation over an LTL8.4m debt unpaid by the Lithuanian National Radio and Television since 2009. The value of the debt has not been written-off nor reduced in the LRTC's financial reporting for 2010 which is based on the Lithuanian Accounting Standards. In addition to that, LRTC's financial documents ignore the impact of the ongoing withdrawal from the analogue terrestrial broadcasting on the value of the company's fixed assets and its revenue.

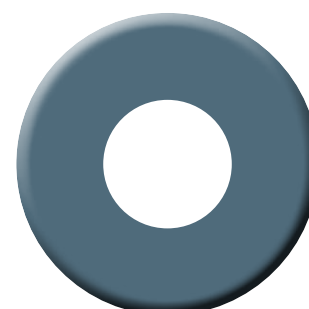
In its mission, the LRTC aims at becoming the country's most competent provider of data transmission services using wireless technologies. On the other hand, the company will continue developing its digital terrestrial TV broadcasting network.

<http://www.lrtc.lt>

Thousand LTL	Lietuvos radijo ir televizijos centras AB	
	2009	2010*
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	68 041	67 544
Cost of goods sold	48 285	48 995
<b>Gross profit (loss)</b>	<b>19 757</b>	<b>18 549</b>
Gross profit margin	29,0 %	27,5 %
Operating cost	18 421	16 907
<b>Operating profit (loss)</b>	<b>1 336</b>	<b>1 642</b>
EBIT margin	2,0 %	2,4 %
<b>EBITDA</b>	<b>18 781</b>	<b>21 022</b>
EBITDA margin	27,6 %	31,1 %
<b>Net profit (loss)</b>	<b>-621</b>	<b>1 161</b>
Net profit margin	-0,9 %	1,7 %
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>142 657</b>	<b>133 897</b>
Intangible assets	840	808
Tangible assets	141 765	133 041
Financial assets	51	47
Other fixed assets	0	0
<b>Current assets</b>	<b>20 852</b>	<b>23 978</b>
Inventories and prepaid expenses	6 765	4 600
Accounts receivable in one year	13 415	16 288
Other current assets	0	0
Cash and cash equivalents	671	3 090
<b>TOTAL ASSETS</b>	<b>163 508</b>	<b>157 874</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>97 724</b>	<b>98 884</b>
Minority shareholder equity	0	0
<b>Subsidies</b>	<b>0</b>	<b>0</b>
<b>Liabilities</b>	<b>65 785</b>	<b>58 990</b>
Long-term liabilities	50 442	37 900
Short-term liabilities	15 343	21 090
Financial liabilities	58 911	52 941
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>163 508</b>	<b>157 874</b>
<b>Key ratios</b>		
Debt to assets	59,8 %	62,6 %
Debt to equity	60,3 %	53,5 %
ROA	-0,4 %	0,7 %
ROCE	0,9 %	1,1 %
ROE	-0,6 %	1,2 %
<b>Other data</b>		
Staff	484	399
Number of top executives	5	5
Average gross monthly salaries of top managers, in LTL	9 302	6 268
Dividend paid	0	1 016
<b>Shareholders</b>	<b>2009</b>	<b>2010</b>
State interest	100,0 %	100,0 %

\* Data from financial reports not approved by shareholders.

### Shareholders



■ Interest owned by the State – 100 percent



## ORO NAVIGACIJA

Oro Navigacija (Air Navigation), the state company, was established in 2001 after the reorganisation of the former Civil Aviation Directorate. The company is a member of several international bodies, including the International Civil Aviation Organisation, and the European Civil Aviation Conference. The company's responsibilities and operations are stringently directed by a number of international treaties and regulations, including the Convention on International Civil Aviation.

### Operations

Through Air Navigation, Lithuania is implementing its international obligation of providing a number of specialised services, such as air traffic management and supervision, communication with crews, navigation, as well as meteorological services.

In 2010, Air Navigation enjoyed a flawless record of operations as no flights were delayed as a result of its actions and no claims whatsoever were raised against the company. Its operations related to flight safety and security, as well as fee collection, matched the international quality standards.

Overall, the company managed and supervised more than 173,200 flights in 2010, three out of four of them being transit ones. The total number of flights increased by almost 9 percent in 2010 while the number of transit flights edged up by 6 percent, compared to the respective figures in 2009. A total of 1,634 flights were cancelled due to the volcano eruption in Iceland in 2010.

The majority of aircraft Air Navigation renders its services to are operated by

### Top management



#### Chief executive officer

Algimantas Raščius

#### Board members

Tomas Karpavičius (chairman), Agnė Katkutė, Janina Laskauskienė, Algimantas Raščius ir Janina Žukauskienė

carriers based in Scandinavia, Western Europe and the Commonwealth of Independent States. Airbaltic, Finnair and Lufthansa led the list of most active airlines in the Lithuanian air space in 2010.

### Financial results

Improving economic environment helped boost the overall number of flights serviced which, in turn, lifted Air Navigation's total revenue by 12 percent in 2010, to LTL73m. On the cost side, the relative increase was almost the same, of 11.6 percent, as total cost of sales amounted to LTL53.7m. Net profit stood at LTL616,900 in 2010.

According to the European Union regulation, the company must compensate the surplus revenue which exceeds its costs and investment to the users of the Lithuanian air space. Therefore, Air Navigation will repay a total of LTL4.6m by lowering service fees in 2012. As a state company, Air Navigation has no obligation of paying dividends.

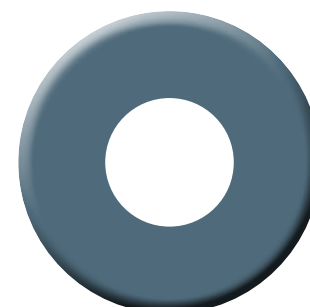
The company's strategic development plan, which covers 2011 through 2015, is aimed at increasing service efficiency and quality.

<http://www.ans.lt/>

Thousand LTL	Oro navigacija VI	
PROFIT AND LOSS STATEMENT	2009	2010
Sales revenue	65 148	72 981
Cost of goods sold	48 169	53 734
<b>Gross profit (loss)</b>	<b>16 979</b>	<b>19 247</b>
Gross profit margin	26,1 %	26,4 %
Operating cost	18 706	18 128
<b>Operating profit (loss)</b>	<b>-1 727</b>	<b>1 119</b>
EBIT margin	-2,7 %	1,5 %
<b>EBITDA</b>	<b>7 729</b>	<b>13 492</b>
EBITDA margin	11,9 %	18,5 %
<b>Net profit (loss)</b>	<b>-28</b>	<b>617</b>
Net profit margin	0,0 %	0,8 %
BALANCE SHEET	2009	2010
ASSETS		
<b>Fixed assets</b>	<b>118 286</b>	<b>127 105</b>
Intangible assets	6 512	10 749
Tangible assets	111 775	112 356
Financial assets	0	4 000
Other fixed assets	0	0
<b>Current assets</b>	<b>40 447</b>	<b>32 867</b>
Inventories and prepaid expenses	1 808	913
Accounts receivable in one year	14 243	16 203
Other current assets	20 000	0
Cash and cash equivalents	4 396	15 752
<b>TOTAL ASSETS</b>	<b>158 734</b>	<b>159 972</b>
EQUITY AND LIABILITIES		
<b>Total equity</b>	<b>153 220</b>	<b>153 837</b>
Minority shareholder equity	-	-
<b>Subsidies</b>	<b>2 410</b>	<b>2 041</b>
<b>Liabilities</b>	<b>3 103</b>	<b>4 094</b>
Long-term liabilities	0	0
Short-term liabilities	3 103	4 094
Financial liabilities	0	0
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>158 734</b>	<b>159 972</b>
Key ratios	2009	2010
Debt to assets	96,5 %	96,2 %
Debt to equity	0,0 %	0,0 %
ROA*	0,6 %	0,9 %
ROCE*	-0,4 %	1,3 %
ROE*	0,6 %	0,9 %
Other data	2009	2010
Staff	320	316
Number of top executives	5	5
Average gross monthly salaries of top managers, in LTL	10 150	10 224
Property tax	1 077	876
<b>Shareholders</b>	<b>2009</b>	<b>2010</b>
State interest	100,0 %	100,0 %

\* Profitability ratios exclude taxes on property deducted from operating costs.

### Shareholders



■ Interest owned by the State – 100 percent



## VILNIUS AIRPORT

The company, established by the Ministry of Transport and Communications in September 1991, is a member of the Airports Council International Europe and maintains co-operation ties with a number of European airports.

### Operations

While managing the airport facilities in Vilnius, the company renders a number of services to its customers. The aviation-related operations include passenger and cargo handling, and services for airlines and other aircraft operators. The non-aviation activity covers rent of commercial area inside the airport, management of parking lots, lodging, and advertising. Fees paid by companies using the airport's infrastructure constitute the largest portion of the company's revenue.

Direct flights connect Vilnius with 19 destinations in Western and Central Europe, as well as in Scandinavia, Ukraine and Russia. A total of 13 airlines operated scheduled flights from Vilnius in 2010 the airport's main competitors being its counterparts in Tallinn, Riga and Kaunas.

Overall, Vilnius Airport handled more than 1.7 million passengers and 26,000 flights in 2010 which represents an increase of 5 percent and 16 percent respectively compared to a year ago. Having introduced a more flexible fee structure, Vilnius Airport attracted new carriers. This led to an increase in the overall passenger number which would have been even higher but for the eruption of a volcano in Iceland which caused a cancellation of 385 flights in Lithuania. Ryanair, the Irish low-cost carrier which launched its base in

### Top management



#### Chief executive officer

Tomas Vaišvila

#### Board members

Rimvydas Vaštakas (chairman),  
Tomas Karpavičius, Agnė Katkutė,  
Tomas Vaišvila, Janina Žukauskienė

Kaunas in 2010, and the bankruptcy of the Vilnius-based Star1 Airlines, have also contributed to slower growth in passenger numbers in Vilnius

### Financial results

Due to a more flexible tariff policy introduced in 2010, Vilnius Airport handled more flights and passengers but saw its overall revenue decline by almost a third, to LTL42.3m. The growth of the company's non-aviation revenue and lower operating costs was not enough to offset a slump in income from aviation services. As a result, Vilnius Airport posted a net loss of LTL8.6m for 2010. Despite that, the company paid a total of LTL1.1m in profit tax as its non-aviation services generated profits. The overall loss in 2010 was almost two times lower than a year ago (LTL17m).

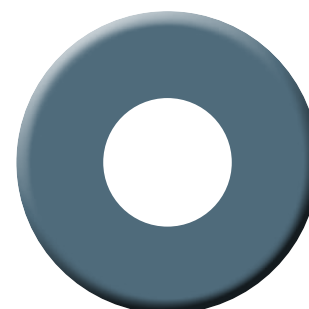
Over the coming years, Vilnius Airport is to work towards the increase in volumes of aviation-related and non-aviation services, higher operating efficiency, and more comfort and security both for passengers and businesses.

<http://www.vilnius-airport.lt>

Thousand LTL	Tarpautinis Vilniaus oro uostas VĮ	
	2009	2010
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	60 480	42 310
Cost of goods sold	69 080	45 406
<b>Gross profit (loss)</b>	<b>-8 600</b>	<b>-3 096</b>
Gross profit margin	-14,2 %	-7,3 %
Operating cost	14 873	13 877
<b>Operating profit (loss)</b>	<b>-23 473</b>	<b>-16 973</b>
EBIT margin	-38,8 %	-40,1 %
<b>EBITDA</b>	<b>360</b>	<b>3 087</b>
EBITDA margin	0,6 %	7,3 %
<b>Net profit (loss)</b>	<b>-17 010</b>	<b>-8 614</b>
Net profit margin	-28,1 %	-20,4 %
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>322 582</b>	<b>302 411</b>
Intangible assets	994	763
Tangible assets	321 343	301 458
Financial assets	245	0
Other fixed assets	0	190
<b>Current assets</b>	<b>13 529</b>	<b>16 875</b>
Inventories and prepaid expenses	2 082	2 056
Accounts receivable in one year	9 673	9 127
Other current assets	192	214
Cash and cash equivalents	1 582	5 478
<b>TOTAL ASSETS</b>	<b>336 111</b>	<b>319 286</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>255 076</b>	<b>246 462</b>
Māžumos akcininkams tenkanti nuosavo kapitalo dalis	-	-
<b>Subsidies</b>	<b>23 965</b>	<b>22 177</b>
<b>Liabilities</b>	<b>57 070</b>	<b>50 647</b>
Long-term liabilities	43 636	38 182
Short-term liabilities	13 434	12 465
Financial liabilities	48 636	43 637
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>336 111</b>	<b>319 286</b>
<b>Key ratios</b>		
Debt to assets	75,9 %	77,2 %
Debt to equity	19,1 %	17,7 %
ROA*	-4,9 %	-2,6 %
ROCE*	-7,5 %	-5,7 %
ROE*	-6,4 %	-3,4 %
<b>Other data</b>		
Staff	645	412
Number of top executives	n. d.	6
Average gross monthly salaries of top managers, in LTL	n. d.	7 931
Property tax	715	370
<b>Shareholders</b>	<b>2009</b>	<b>2010</b>
State interest	100,0 %	100,0 %

\* Profitability ratios exclude taxes on property deducted from operating costs.

### Shareholders



■ Interest owned by the State – 100 percent



Lietuvos jūrų laivininkystė

## LITHUANIAN SHIPPING COMPANY

Lietuvos Jūrų Laivininkystė (Lithuanian Shipping Company, LJL), as a public company, has been operating since 2001 after its predecessor, LISCO, had gone through a major restructuring. Majority owned by the State, LJL is listed on the Nasdaq OMX Vilnius Stock Exchange.

### Operations

Based in Klaipėda, LJL operates in the international shipping market mainly transporting metals, timber, bulk and general cargo. The company owns eleven dry bulk and multipurpose vessels, ten of which operated under time charter and other types of contracts in 2010. One cargo ship was operated by the company itself. LJL's commercial routes link Klaipėda to ports in the Baltic Sea and the Mediterranean, as well as Western Europe and North America. In addition to that, LJL offers comprehensive crew management services including crew planning, training and certification.

### Financial results

Total revenue edged up by 5 percent to reach LTL62m in 2010 despite a slight decline, of 4 percent, in the overall cargo volume which amounted to 1.43 million tons for the whole year. Continuing negative effects of the global economic slowdown and higher availability of dry cargo vessels in the market were the two major challenges the company faced in 2010.

Short-term charter revenue almost doubled in 2010. The key time charter income, however, remained virtually unchanged

### Top management



#### Chief executive officer

Arvydas Bogočionkas

#### Board members

Arūnas Štaras (chairman), Jelena Antonevič, Arvydas Bogočionkas, Juozas Darulis, Vidutė Šarkienė  
**Supervising council members**  
 Rolandas Bražinskas, Ona Barauskienė, Kazimieras Gimbutis, Helena Rogoža, Evaldas Zacharevičius

compared to 2009 which resulted in the overall revenue growth of a mere 5 percent in 2010. Total operating costs edged up by 4 percent despite the sale of the company's two ships in order to reduce debt. Higher fuel prices, negative currency fluctuations and depreciation of fixed assets were the main factors behind the overall growth of costs.

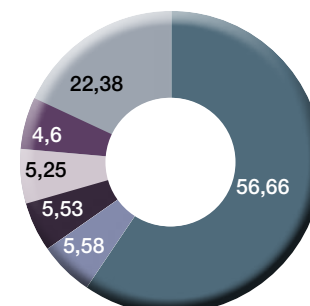
LJL's net loss stood at LTL39.1m for the whole year, up by almost 36 percent compared to the respective figure in 2009.

In the coming years, the company aims at broader diversification and higher efficiency of its operations. LJL plans to undertake financial procedures to ensure its liquidity, stable financial flows, and capital adequacy. To develop its business, LJL is eyeing the EU Structural Funds as a source to finance investment.

<http://www.ljl.lt>

Thousand LTL	Lietuvos jūrų laivininkystė AB	
	2009	2010
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	59 181	62 172
Cost of goods sold	85 977	79 666
<b>Gross profit (loss)</b>	<b>-26 796</b>	<b>-17 494</b>
Gross profit margin	-45,3 %	-28,1 %
Operating cost	4 936	5 135
<b>Operating profit (loss)</b>	<b>-31 732</b>	<b>-22 629</b>
EBIT margin	-53,6 %	-36,4 %
<b>EBITDA</b>	<b>-4 063</b>	<b>3 478</b>
EBITDA margin	-6,9 %	5,6 %
<b>Net profit (loss)</b>	<b>-28 875</b>	<b>-39 134</b>
Net profit margin	-48,8 %	-62,9 %
<b>BALANCE SHEET</b>		
	2009	2010
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>283 955</b>	<b>239 318</b>
Intangible assets	35	39
Tangible assets	283 920	239 279
Financial assets	0	0
Other fixed assets	0	0
<b>Current assets</b>	<b>5 474</b>	<b>9 253</b>
Inventories and prepaid expenses	3 116	2 626
Accounts receivable in one year	1 116	4 560
Other current assets	0	0
Cash and cash equivalents	1 242	2 067
<b>TOTAL ASSETS</b>	<b>289 429</b>	<b>248 571</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>202 184</b>	<b>163 050</b>
Minority shareholder equity	0	0
<b>Subsidies</b>	<b>0</b>	<b>0</b>
<b>Liabilities</b>	<b>87 245</b>	<b>85 521</b>
Long-term liabilities	62 595	53 184
Short-term liabilities	24 650	32 337
Financial liabilities	73 469	76 002
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>289 429</b>	<b>248 571</b>
<b>Key ratios</b>		
	2009	2010
Debt to assets	69,9 %	65,6 %
Debt to equity	36,3 %	46,6 %
ROA	-10,0 %	-15,7 %
ROCE	-11,5 %	-9,5 %
ROE	-14,3 %	-24,0 %
<b>Other data</b>		
	2009	2010
Staff	426	366
Number of top executives	9	9
Average gross monthly salaries of top managers, in LTL	6 755	6 275
Dividend paid	0	0
<b>Shareholders</b>		
	2009	2010
State interest	56,7 %	56,7 %

### Shareholders, percent



- The Lithuanian State – 56.7 percent
- Swedbank Estonia – 5.6 percent
- DFDS AS – 5.5 percent
- Achema Group – 5.2 percent
- Lithuanian State Property Fund – 4.6 percent
- Minor shareholders – 22.4 percent



## DIRECTORATE GENERAL OF STATE FORESTS

The Directorate General of State Forests (DGSF) is a budgetary organisation which controls 42 state-owned forest enterprises. In turn, they carry out commercial and non-commercial operations in most of the country's forests owned by the State.

### Operations

DGSF coordinates activities of all state-owned forest enterprises which cover logging and sale of timber as well as forest replanting and protection. Forest areas controlled by state-owned forest enterprises vary from 13,000 to 39,000 hectares while the total area under the supervision of DGSF stood at just over one million hectares as of the end of 2010.

A total of 835 hectares of new forest was planted by state-owned forest enterprises in 2010 at a total cost of almost LTL2m. One of the large-scale projects, launched in 2010, is aimed at building automatic fire surveillance systems that should cover all state-owned forests by the end of 2013. In addition to that, DGSF has introduced the software to manage round wood sales in state-owned forests.

### Financial results

The aggregate sales revenue of the 42 state-owned forest enterprises soared by one-fifth in 2010 to reach LTL415m. The rise in revenue was recorded despite a marginal slump, of less than 5 percent, in the overall volume of round wood sold which stood at 3.37 million cubic metres.

The aggregate net profits went up by 16.5 times, to LTL39.6m, mostly due to higher

### Top management



#### Director

Benjaminas Sakalauskas

#### Deputy directors

Zdislovas Truskauskas, Gintaras Visalga

timber prices. Net profit margin jumped to 10 percent from a mere 1 percent in 2009. State-owned forest enterprises pay taxes on raw materials based on the total value of timber and round wood sold. The overall allocations from this type of taxation almost doubled in 2010 to reach LTL37.6m compared to LTL20.4m in 2009 contributing largely to considerably higher total operating expenses which went up by 19 percent, to LTL221m, in 2010, from LTL186m in one year ago.

The most successful state-owned forest enterprises enjoyed net profit margins of around 22 percent to 23 percent while the least efficient ones reported the margins of just several percent and even lower.

In order to boost operating efficiency and supervision, boards are mandatory for all state-owned forest enterprises from 2011.

The aggregate financial reporting includes the indicator value of forests (LTL3.1bn) which has been added to total tangible assets and equity.

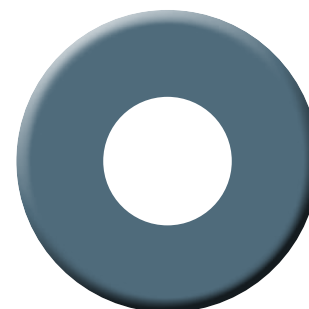
Thousand LTL	Miškų urėdijos VĮ	
PROFIT AND LOSS STATEMENT	2009	2010
Sales revenue	344 557	414 977
Cost of goods sold	160 505	153 317
<b>Gross profit (loss)</b>	<b>184 052</b>	<b>261 660</b>
Gross profit margin	53,4 %	63,1 %
Operating cost	185 679	220 873
<b>Operating profit (loss)</b>	<b>-1 627</b>	<b>40 787</b>
EBIT margin	-0,5 %	9,8 %
<b>EBITDA</b>	<b>29 057</b>	<b>70 896</b>
EBITDA margin	8,4 %	17,1 %
<b>Net profit (loss)</b>	<b>2 420</b>	<b>39 603</b>
Net profit margin	0,7 %	9,5 %
<b>BALANCE SHEET</b>	<b>2009</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>3 362 408</b>	<b>3 377 294</b>
Intangible assets	197	240
Tangible assets	3 359 810	3 367 930
Financial assets	23	3 937
Other fixed assets	2 378	5 188
<b>Current assets</b>	<b>189 476</b>	<b>231 437</b>
Inventories and prepaid expenses	72 135	80 933
Accounts receivable in one year	23 896	27 977
Other current assets	57 109	68 164
Cash and cash equivalents	36 337	54 364
<b>TOTAL ASSETS</b>	<b>3 551 884</b>	<b>3 608 732</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>3 508 317</b>	<b>3 549 097</b>
Minority shareholder equity	0	0
<b>Subsidies</b>	<b>10 453</b>	<b>17 509</b>
<b>Liabilities</b>	<b>33 115</b>	<b>42 126</b>
Long-term liabilities	4 139	3 137
Short-term liabilities	28 976	38 989
Financial liabilities	4 098	4 776
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 551 884</b>	<b>3 608 732</b>
<b>Key ratios</b>	<b>2009</b>	<b>2010</b>
Debt to assets	98,8 %	98,3 %
Debt to equity	0,1 %	0,1 %
ROA*	0,7 %	2,1 %
ROCE*	0,7 %	2,3 %
ROE*	0,7 %	2,1 %
<b>Other data</b>	<b>2009</b>	<b>2010</b>
Staff**	3 859	3 811
Number of top executives***	3	4
Average gross monthly salaries of top managers, in LTL***	7 136	5 824
<b>Investor return</b>	<b>25 213</b>	<b>42 398</b>
Property tax	4 852	4 821
Raw materials tax	20 362	37 577
<b>Shareholders</b>	<b>2009</b>	<b>2010</b>
State interest	100,0 %	100,0 %

\* Taxes on property and raw materials have been deducted from total operating costs while calculating profitability ratios.

\*\* Total number of employees in 42 state-owned forest enterprises.

\*\*\* Includes salaries of the DGSF's director, his chief adviser, and deputy directors.

### Shareholders



■ Interest owned by the State – 100 percent

Note: DGSF is a budgetary organisation; all state forest enterprises are 100 percent owned by the State.



## LESTO

LESTO, an operator of the country's power grids, was established following a merger of two grid operators, RST and VST, formerly in charge of power distribution and supply in Eastern and Western part of Lithuania. Formally, LESTO started its operations on the 1st of January 2011. Apart from the power grids, the LESTO Group comprises four other companies providing specialised services to the parent company and other state-owned energy firms. LESTO is listed on the Nasdaq OMX Vilnius Stock Exchange.

### Operations

LESTO distributes power throughout Lithuania and supplies it to users which include almost 1.5 million households and other private clients and nearly 60,000 business customers. LESTO has established a nationwide service network which comprises 52 customer care outlets in all regions.

In 2010, a total of 7,724 million kilowatt-hours of electricity was distributed by RST and VST which formally can be attributed to the present-day LESTO. This almost equals the respective result one year ago. However, the overall volume of power sold went down by 25 percent, from 7,755 million kWh to 5,793 million kWh, as a considerable number of users chose independent suppliers in 2010.

Total investment made by RST and VST, mostly to the upgrade of infrastructure, amounted to LTL267m in 2010.

### Financial results

Aggregate financial data of VST and RST has been used providing LESTO's financial

### Top management



#### Chief executive officer

Arvydas Tarasevičius

#### Board members

Arvydas Darulis, Kęstutis Žilėnas, Aloyzas Vitkauskas, Arvydas Tarasevičius, Šarūnas Vasiliauskas

reporting for 2010 and 2009 because the company itself formally started its operations from the first day 2011.

In 2010, the overall net loss stood at LTL56m which represents a more than four-fold increase compared to the respective result one year ago. Operating profit margin slumped to just less than 30 percent from 39 percent in 2009 mainly due to higher power purchase costs after the closure of the Ignalina Nuclear Power Plant. They went up by LTL315m or more than 25 percent.

The decrease in the operating profit margin was also influenced by lower power distribution fees set by the National Control Commission for Prices and Energy for 2010. The aggregate revenue edged up by 5 percent, to LTL2.423bn.

The aggregate EBITDA takes into account considerable asset depreciation and revaluation which took place in 2009. Higher overall costs and revaluation of fixed assets also contributed to the decrease of the aggregate EBITDA.

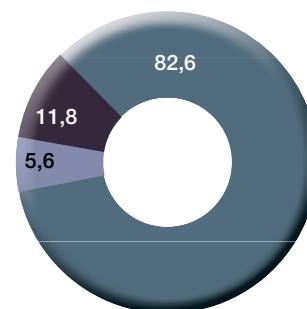
<http://www.lesto.lt>

Thousand LTL	LESTO AB* (RST ir VST)	
	2009	2010
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	2 315 945	2 423 348
Cost of goods sold	1 406 418	1 704 186
<b>Gross profit (loss)</b>	<b>909 527</b>	<b>719 162</b>
Gross profit margin	39,3 %	29,7 %
Operating cost	930 627	790 781
<b>Operating profit (loss)</b>	<b>-21 100</b>	<b>-71 619</b>
EBIT margin	-0,9 %	-3,0 %
<b>EBITDA</b>	<b>627 892</b>	<b>409 196</b>
EBITDA margin	27,1 %	16,9 %
<b>Net profit (loss)</b>	<b>-13,790</b>	<b>-56 834</b>
Net profit margin	-0,6 %	-2,3 %
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>5 260 798</b>	<b>5 047 601</b>
Intangible assets	3 929	4 871
Tangible assets	5 238 697	4 832 162
Financial assets	0	198 071
Other fixed assets	18 172	12 497
<b>Current assets</b>	<b>478 034</b>	<b>381 969</b>
Inventories and prepaid expenses	37 637	39 916
Accounts receivable in one year	222 978	203 962
Other current assets	118 418	6 267
Cash and cash equivalents	99 001	131 824
<b>TOTAL ASSETS</b>	<b>5 738 832</b>	<b>5 429 570</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>3 803 180</b>	<b>3 639 025</b>
Minority shareholder equity	0	0
<b>Subsidies</b>	<b>41 284</b>	<b>39 811</b>
<b>Liabilities</b>	<b>1 885 364</b>	<b>1 739 677</b>
Long-term liabilities	1 359 416	1 009 033
Short-term liabilities	525 948	730 644
Financial liabilities	669 368	272 469
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5 738 832</b>	<b>5 429 570</b>
<b>Key ratios</b>		
	2009	2010
Debt to assets	66,3 %	67,0 %
Debt to equity	17,6 %	7,5 %
ROA	-0,2 %	-1,0 %
ROCE	-0,5 %	-1,8 %
ROE	-0,4 %	-1,6 %
<b>Other data</b>		
	2009	2010
Staff	3 674	3 696
Number of top executives	6	4**
Average gross monthly salaries of top managers, in LTL	22 552	20 271
Dividend paid	105 920	60 998
<b>Shareholders</b>	<b>2009</b>	<b>2010</b>
State interest	82,6 %	82,6 %

\* Aggregate data of two former power grids.

\*\* Data of Rytu Skirstomieji Tinklai, AB for 2010.

### Shareholders, percent



- The Lithuanian State – 82.6 percent
- E.ON Ruhrgas International GmbH – 11.8 percent
- Minor shareholders – 5.6 percent



## LITHUANIAN ENERGY

As a public company, Lietuvos Energija (Lithuanian Energy) was established in December 1995 after the reshuffle of the former state-controlled power distribution and supply system. At the end of 2010, a second major reform of the system took place leading to the creation of several new business entities, such as Litgrid which assumed control over the high-voltage power lines formerly operated by Lithuanian Energy.

### Operations

Lithuanian Energy currently controls three power generating facilities which will all be merged into a single organisation by the end of 2011. The company is also in charge of a wholesale trade in electricity. In addition to that, Lithuanian Energy is a direct owner of several smaller specialised firms providing repair, data management, and other services. Lithuanian Energy is listed on the Nasdaq OMX Vilnius Stock Exchange.

All in all, the three power plants controlled by Lithuanian Energy generated 30 percent of power consumed by the country's private and corporate users. About two thirds of the total volume was generated by the power station in Elektrėnai. In 2010, Lithuanian Energy was involved in power imports from Belarus, Latvia and Estonia. On the other hand, Finland, Latvia and Estonia were the key power export markets.

A total of five terawatt-hours of electricity were traded by Lithuanian Energy through the National Power Exchange in 2010 as the company maintained its key role in this area.

### Financial results

The Lithuanian Power Plant in Elektrėnai was included into the group of Lithuanian Energy companies from September 2010. This has to be taken into account when comparing con-

## Top management



### Chief executive officer

Dalius Misiūnas

### Board members

Arvydas Darulis, Dalius Misiūnas, Šarūnas Vasiliauskas, Aloyzas Vitkauskas, Kęstutis Žilėnas

solidated results of 2009 and 2010. In addition to that, Lithuanian Energy handed over high-voltage power lines and other assets to Litgrid and other companies at the end of 2010.

The overall structure and operations of the company underwent considerable changes in 2010 which poses serious difficulties when it comes to comparing Lithuanian Energy's results of 2009 and 2010. For instance, the inclusion of the Lithuanian Power Plant added a huge amount to the group's total financial liabilities. On the other hand, the actual value of fixed assets is significantly lower than that reported which means that the actual return on assets is higher than the stated figure.

Lithuanian Energy's total dividends stood at LTL89m for 2010, or 18.2 cents per share.

The company is one of the key players in implementing the National Energy Strategy aimed at the diversification of energy supplies and strengthening the country's independence.

A new combined-cycle power generation unit, to be built at the Lithuanian Power Plant in Elektrėnai by the end of 2012, is one of major projects currently under implementation by Lithuanian Energy.

<http://www.lpc.lt>

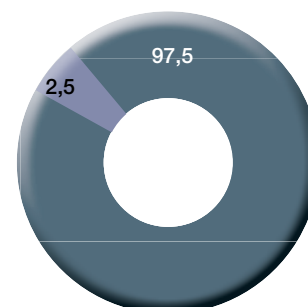
Thousand LTL	AB „Lietuvos energija“ grupė	
PROFIT AND LOSS STATEMENT	2009	2010
Sales revenue	286 748	1 277 353
Cost of goods sold	-	-
<b>Gross profit (loss)</b>	<b>286 748</b>	<b>1 277 353</b>
Gross profit margin	100,0 %	100,0 %
Operating cost	205 269	1 153 217
<b>Operating profit (loss)</b>	<b>81 479</b>	<b>124 136</b>
EBIT margin	28,4 %	9,7 %
<b>EBITDA</b>	<b>88 191</b>	<b>178 475</b>
EBITDA margin	30,8 %	14 %
<b>Net profit (loss)</b>	<b>20 583</b>	<b>124 004</b>
Minority interest	7,2 %	9,7 %
<b>BALANCE SHEET</b>	<b>2009</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>2 867 782</b>	<b>3 220 762</b>
Intangible assets	2 455	57 084
Tangible assets	2 838 853	2 997 713
Financial assets	26 474	164 764
Other fixed assets	0	1 201
<b>Current assets</b>	<b>334 752</b>	<b>440 735</b>
Inventories and prepaid expenses	13 582	145 182
Accounts receivable in one year	247 910	200 002
Other current assets	17 160	8 626
Cash and cash equivalents	54 167	86 925
<b>TOTAL ASSETS</b>	<b>3 202 534</b>	<b>3 661 497</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>2 655 864</b>	<b>1 877 575</b>
Minority shareholder equity	0	46 351
<b>Subsidies</b>	<b>71 420</b>	<b>872 957</b>
<b>Liabilities</b>	<b>475 250</b>	<b>910 965</b>
Long-term liabilities	264 249	644 297
Short-term liabilities	211 001	266 668
Financial liabilities	16 297	549 888
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 202 534</b>	<b>3 661 497</b>
<b>Key ratios</b>	<b>2009</b>	<b>2010</b>
Debt to assets	82,9 %	50 %
Debt to equity	0,6 %	30 %
ROA	0,6 %	3,4 %
ROCE	0,2 %	3,1 %
ROE	0,8 %	6,8 %
<b>Other data</b>	<b>2009</b>	<b>2010</b>
Staff	1 227	946
Number of top executives**	6	2
Average gross monthly salaries of top managers, in LTL	18 251	15 372
Staff	48 266	89 049
<b>Shareholders</b>	<b>2009</b>	<b>2010</b>
State interest	97,5 %	97,5 %

Administration in 2010 includes CEO and CFO; top management in 2009.

\* Financial data in the profit and loss statement represent continuous operations only.

\*\* Administration in 2010 includes CEO and CFO; top management in 2009.

### Shareholders, percent



■ The Lithuanian State – 97,5 percent  
 ■ Minor shareholders – 2,5 percent



## LITGRID

Litgrid, an operator of the high-voltage power transmission network in Lithuania, was established at the end of 2010. It took over assets related to power grid operations from Lithuanian Energy. Together with its subsidiary, Baltpool, Litgrid manages and supervises trading in electricity at the National Power Exchange. Litgrid is listed on the Nasdaq OMX Vilnius Stock Exchange.

### Operations

Power transmission and power grid management throughout Lithuania are Litgrid's principal areas of activity. In 2010, a total of 9.26 billion kilowatt-hours of electricity was transmitted via the company's high-voltage network representing a marginal increase, of 1 percent, in volume compared to the respective figure in 2009. In addition to that, a total of 8.12 billion kWh were traded at the National Power Exchange in 2010. Litgrid's area of responsibilities also covers the upgrade of the domestic power transmission network which is being made ready to work in a synchronised mode as part of the European power transmission system.

In addition to that, Litgrid is in charge of two key energy projects, NordBalt and LitPol, aimed at interconnecting Lithuania's power system with that of Sweden and Poland, respectively.

In 2010, Litgrid completed the construction of the power distribution station in Bitėnai, in Western Lithuania. This project increases the reliability of power supplies and safeguards Western Lithuanian users from transmission disruptions in the Kaliningrad Region.

### Top management



#### Chief executive officer

Virgilijus Poderys

#### Board members

Romas Švedas, Violeta Greičiuviene,  
Gintaras Labutis, Virgilijus Poderys,  
Valentinas Milaknis

### Financial results

There are no financial data representing the year 2009 as Litgrid was formally established on the 16th of November 2010. The group's revenue amounted to LTL97.2m while its net profits stood at LTL2.4m.

Litgrid's fixed assets are overvalued in the company's financial documents, compared to its actual value. The discrepancies are mostly due to the fact that service tariffs are set by respective legislation. On the other hand, Litgrid, as many other energy enterprises in Lithuania, is undergoing a rapid technological reshuffle which causes the revaluation of its assets.

All in all, this means that Litgrid's actual financial results, especially return on assets, are better than reported.

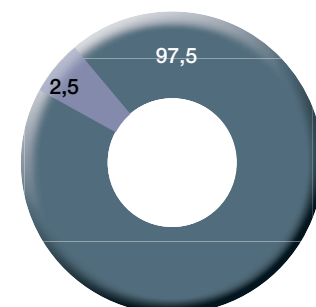
Over the coming years, the company aims at maintaining stable operations of the country's power transmission system. Gradually, it has to be prepared for integration into the pan-European network, in line with the EU's Third Energy Package. As part of the broader project, Litgrid will contribute to the creation of the common power market in the Baltic States.

<http://www.litgrid.eu>

Thousand LTL	„Litgrid“ AB	
PROFIT AND LOSS STATEMENT	2009*	2010
Sales revenue		90 266
Cost of goods sold		-
<b>Gross profit (loss)</b>		<b>90 266</b>
Gross profit margin		100,0 %
Operating cost		94 168
<b>Operating profit (loss)</b>		<b>-3 902</b>
EBIT margin		-4,3 %
<b>EBITDA</b>		<b>0</b>
EBITDA margin		0,0 %
<b>Net profit (loss)</b>		<b>2 373</b>
Net profit margin		2,6 %
BALANCE SHEET	2009*	2010
ASSETS		
<b>Fixed assets</b>		<b>2 088 299</b>
Intangible assets		1 750
Tangible assets		2 064 817
Financial assets		21 407
Other fixed assets		325
<b>Current assets</b>		<b>273 094</b>
Inventories and prepaid expenses		4 508
Accounts receivable in one year		149 922
Other current assets		43 000
Cash and cash equivalents		75 664
<b>TOTAL ASSETS</b>		<b>2 361 393</b>
EQUITY AND LIABILITIES		
<b>Total equity</b>		<b>1 928 848</b>
Minority shareholder equity		3 359
<b>Subsidies</b>		<b>42 349</b>
<b>Liabilities</b>		<b>390 196</b>
Long-term liabilities		209 503
Short-term liabilities		180 693
Financial liabilities		2 526
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2 361 393</b>
Key ratios	2009*	2010
Debt to assets		81,7 %
Debt to equity		0,1 %
ROA		0,1 %
ROCE		-0,2 %
ROE		0,1 %
Other data	2009	2010
Staff		618
Number of top executives		22
Average gross monthly salaries of top managers, in LTL		10 456
Dividend paid		0
Shareholders	2009*	2010
State interest		97,5 %

\* Litgrid AB was set up on 16 November 2010 as a result of the restructuring of Lietuvos Energija AB.

### Shareholders, percent



■ The Lithuanian State – 97,5 percent  
■ Minor shareholders – 2,5 percent



## VISAGINAS NUCLEAR POWER PLANT

Visaginas Nuclear Power Plant, which is in charge of building of a new nuclear facility in the vicinity of Visaginas and the decommissioning of the old one, was established in August 2008. VNPP controls, directly and indirectly, a group of energy companies operating in power generation, transmission, distribution, sales, and other areas.

### Operations

Management of projects related to proper preparation for the construction of the new nuclear power plant is VNPP's key objective in the opening stage. In May 2010, three Baltic States and Poland signed a communiqué declaring their readiness to cooperate in the implementation of various energy projects, including the VNPP. A high-ranking international working group has been formed to supervise all key aspects related to the construction of the new facility.

A thorough analysis of land plots allocated for the new nuclear power plant was completed in 2010. The evaluation, commissioned by the VNPP, has been carried out in accordance to the requirements set by the International Atomic Energy Agency. Land planning procedures were completed in 2010 as well.

In addition to that, international consultants presented two studies which assess functioning of transport and supply chains during the construction of the power plant. Environmental safety of the construction site and roads has been audited too.

### Financial results

To ensure an objective comparison of data, financial reports of the VNPP and the companies controlled by the group have been integrated while eliminating transactions between them. In other words, the aggregate data is based on a theoretical assumption that the VNPP group existed both in 2009 and 2010.

### Top management



#### Chief executive officer

Šarūnas Vasiliauskas

#### Board members

Arvydas Darulis, Kęstutis Škiudas,  
Aloyzas Vitkauskas, Šarūnas Vasiliauskas,  
Inga Černiuk

The VNPP's profit, less that attributable to minority shareholders, increased by 23 percent in 2010, to LTL13.9m, despite growing costs of services which edged up due to higher electricity purchase expenses. However, the overall operation costs were lower than these in 2009 while the total revenue rose by 6 percent in 2010.

Operating costs went down primarily as a result of revaluation of assets owned by the companies controlled by the VNPP. The revaluation, which took place in 2009, has lowered the value of the VNPP's assets by LTL449m.

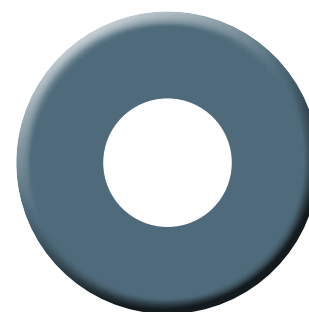
On the other hand, the value of the group's fixed assets went up by LTL444m in 2010 due to large projects under way. Total long-term liabilities increased as well, mainly due to borrowing by the Lithuanian Power Plant which is building a new power generation unit.

The impact of specific issues related to market regulation and asset valuation will continue to be particularly noticeable for the group's financial results. In many instances, the actual value of fixed assets owned by the group's companies is lower than that stated in the financial reports. This means that the overall financial results of the group are better than those reported.

<http://www.vae.lt>

Thousand LTL	Visagino atominė elektrinė AB	
PROFIT AND LOSS STATEMENT	2009	2010
Sales revenue	2 898 644	3 072 364
Cost of goods sold	2 613 179	2 507 808
<b>Gross profit (loss)</b>	<b>285 465</b>	<b>564 556</b>
Gross profit margin	9,8 %	18,4 %
Operating cost	504 484	546 914
<b>Operating profit (loss)</b>	<b>-219 019</b>	<b>17 642</b>
EBIT margin	-7,6 %	0,6 %
<b>EBITDA</b>	<b>947 417</b>	<b>735 325</b>
EBITDA margin	32,7 %	23,9 %
<b>Net profit (loss)</b>	<b>10 662</b>	<b>18 443</b>
Net profit margin	0,4 %	0,6 %
<b>BALANCE SHEET</b>	<b>2009</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>10 283 241</b>	<b>10 645 100</b>
Intangible assets	330 423	363 130
Tangible assets	9 748 567	10 192 157
Financial assets	26 771	28 485
Other fixed assets	177 480	61 328
<b>Current assets</b>	<b>898 225</b>	<b>859 914</b>
Inventories and prepaid expenses	73 975	155 191
Accounts receivable in one year	436 316	295 166
Other current assets	86 405	66 557
Cash and cash equivalents	301 529	343 000
<b>TOTAL ASSETS</b>	<b>11 181 466</b>	<b>11 505 014</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>7 919 092</b>	<b>7 880 056</b>
Minority shareholder equity	900 800	800 323
<b>Subsidies</b>	<b>815 150</b>	<b>942 542</b>
<b>Liabilities</b>	<b>2 447 224</b>	<b>2 682 416</b>
Long-term liabilities	1 749 162	1 366 185
Short-term liabilities	698 062	1 316 231
Financial liabilities	840 618	1 089 802
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>11 181 466</b>	<b>11 505 014</b>
<b>Key ratios</b>	<b>2009</b>	<b>2010</b>
Debt to assets	70,8 %	68,5 %
Debt to equity	10,6 %	13,8 %
ROA	0,1 %	0,2 %
ROCE	-2,5 %	0,2 %
ROE	0,1 %	0,2 %
<b>Other data</b>	<b>2009</b>	<b>2010</b>
Staff	6 164	5 892
Number of top executives	n. d.	n. d.
Average gross monthly salaries of top managers, in LTL	n. d.	n. d.
Dividend paid	0	0
<b>Shareholders</b>	<b>2009</b>	<b>2010</b>
State interest	100,0 %	100,0 %

### Shareholders, percent



■ Interest owned by the State – 100 percent\*

\*Interest controlled through LEO LT, AB which is fully owned by the State.



## PROPERTY BANK

The Property Bank was established in 1996, in the aftermath of the banking crisis which swept the country at the end of 1995. Initially, the new institution was in charge of managing low-quality assets taken over from failed banks.

In April 2011, the legal status of the PB was changed to the state enterprise as a step towards its merger with the State Property Fund, another public organisation involved in similar field of activity. The new organisation, set to start operations in the middle of 2012, will carry out most of functions related to the management of the state-owned property.

### Operations

PB is in charge of sale of low-quality assets under its jurisdiction. It administers the repayment of bank loans guaranteed by the State. In addition to that, PB manages and supervises projects aimed at renovation of buildings owned by public institutions.

The total value of liabilities administered by PB halved in 2010 to LTL50m at the end of the year from LTL102m in 2009. The steep decrease was primarily caused by improved economic situation in the country. On the other hand, the total value of liabilities recovered went down as well, from LTL6m in 2009 to LTL2.3m in 2010. This can be explained by the fact that PB mainly administers loans issued to now bankrupt companies which have no property which can be used for debt repayment.

At the end of 2010, PB controlled 215 buildings and other real estate of which 124 were put for sale. A total of 78 auctions were called in 2010 which resulted in the sale of six real estate objects for a total of LTL2.7m. The sale process

## Top management



### Chief executive officer

Arnoldas Burkovskis

### Board members, from July 2011

Aloyzas Vitkauskas, Živilė Turevičienė,  
Audrius Želionis, Aušra Vičkačkienė,  
Laima Kalinauskienė

is considerably hampered by the ongoing state administration reform, poor land planning and continued sluggishness in the property market.

### Financial results

The PB's financial results largely reflect trends in debt administration. The organisation's sales revenue ebbed by almost 4 percent in 2010. However, new buildings and other property taken over in 2010 as well as completed reconstruction projects helped boost the total value of PB's assets by more than 12 percent, to LTL279m. EBITDA margin was negative both in 2010 and 2009. In fact, it went down in 2010 due to lower overall revenue and higher operating costs.

As a public company, the Property Bank paid LTL765,000 in dividends for 2010. State enterprises pay no dividend, according to the legislation in force.

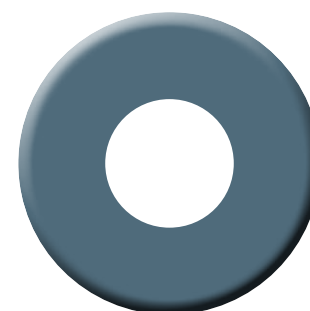
PB's plans for 2011 include the completion of several building and reconstruction projects in Vilnius. Some of the renovated buildings are to be sold for an estimated LTL17.5m. In addition to that, PB aims at recovering a total of almost LTL31m in overdue liabilities.

www.turtas.lt

Thousand LTL	Turto bankas VĮ	
	2009	2010
<b>PROFIT AND LOSS STATEMENT</b>		
Sales revenue	6 171	5 929
Cost of goods sold	-	-
<b>Gross profit (loss)</b>	<b>6 171</b>	<b>5 929</b>
Gross profit margin	100,0 %	100,0 %
Operating cost	7 486	8 194
<b>Operating profit (loss)</b>	<b>-1 315</b>	<b>-2 265</b>
EBIT margin	-21,3 %	-38,2 %
<b>EBITDA</b>	<b>-934</b>	<b>-1 939</b>
EBITDA margin	-15,1 %	-32,7 %
<b>Net profit (loss)</b>	<b>15</b>	<b>-1 225</b>
Net profit margin	0,2 %	-20,7 %
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
<b>Fixed assets</b>	<b>13 433</b>	<b>195 936</b>
Intangible assets	20	18
Tangible assets	5 401	4 965
Financial assets	7 958	68 010
Other fixed assets	54	122 943
<b>Current assets</b>	<b>233 908</b>	<b>82 887</b>
Inventories and prepaid expenses	187 890	43 771
Accounts receivable in one year	954	1 300
Other current assets	42 517	35 699
Cash and cash equivalents	2 547	2 117
<b>TOTAL ASSETS</b>	<b>247 341</b>	<b>278 823</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>12 774</b>	<b>10 926</b>
Minority shareholder equity	-	-
<b>Subsidies</b>	<b>0</b>	<b>0</b>
<b>Liabilities</b>	<b>234 567</b>	<b>267 897</b>
Long-term liabilities	198 323	233 631
Short-term liabilities	36 244	34 266
Financial liabilities	32 094	87 281
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>247 341</b>	<b>278 823</b>
<b>Key ratios</b>		
Debt to assets	5,2 %	3,9 %
Debt to equity	251,2 %	798,8 %
ROA*	0,0 %	-0,4 %
ROCE*	-2,9 %	-2,3 %
ROE*	0,1 %	-11,2 %
<b>Other data</b>		
Staff	71	63
Number of top executives*	5+1	5+1
Average gross monthly salaries of top managers, in LTL**	8 754	6318**
<b>Investor return</b>	<b>623</b>	<b>765</b>
Dividend paid***	623	765
Property tax	0	0
<b>Shareholders</b>	<b>2009</b>	<b>2010</b>
State interest	100,0 %	100,0 %

\* Tax on property has been deducted from total operating costs while calculating profitability ratios.  
\*\* Average salary of five heads of departments; CEO's salary has not been disclosed.  
\*\*\* Average salary in the fourth quarter of 2010.  
\*\*\*\* Dividends paid bearing the legal status of a public company.  
1 The company had a supervisory council before reorganisation.

## Shareholders



■ Interest owned by the State – 100 percent

## List of enterprises

No.	Company or organization	State interest	Sector	Accountability	Net turnover in 2010, LTL thous.	Total assets in 2010, LTL thous.
1	AB „Lietuvos dujos“	18 %	Energy	Ministry of Energy	1 750 831	2 708 936
2	UAB „Geoterma“	77 %	Energy	Ministry of Energy	14 649	52 519
3	UAB „Visagino atominė elektrinė“ <sup>1</sup>	100 %	Energy	Ministry of Energy	3 072 364	11 505 014
4	AB „Lesto“ <sup>2</sup>	83 %	Energy	Ministry of Energy	2 423 348***	5 429 570***
5	AB „Lietuvos energija“ <sup>2</sup>	98 %	Energy	Ministry of Energy	2 076 256	3 661 497
6	AB „Litgrid“ <sup>2</sup>	98 %	Energy	Ministry of Energy	90 266****	2 361 393
7	UAB „Visagino energetikos remontas“	100 %	Energy	Ministry of Energy	5 909	6 932
8	VĮ Energetikos agentūra	100 %	Energy	Ministry of Energy	0	3 391
9	VĮ Ignalinos atominė elektrinė <sup>3</sup>	100 %	Energy	Ministry of Energy	19 846	1 853 534
10	VĮ Radioaktyviųjų atliekų tvarkymo agentūra	100 %	Energy	Ministry of Energy	172	1 985
11	VĮ „Visagino energija“	100 %	Energy	Ministry of Agriculture	70 033	211 298
12	AB „Klaipėdos nafta“	71 %	Transport	Ministry of Energy	123 032	473 906
13	VĮ „Automagistralė“	100 %	Transport	Lithuanian Road Administration	27 387	48 209
14	VĮ „Alytaus regiono keliai“	100 %	Transport	Lithuanian Road Administration	13 576	27 458
15	VĮ „Kauno regiono keliai“	100 %	Transport	Lithuanian Road Administration	28 900	53 213
16	VĮ „Klaipėdos regiono keliai“	100 %	Transport	Lithuanian Road Administration	16 593	36 178
17	VĮ „Marijampolės regiono keliai“	100 %	Transport	Lithuanian Road Administration	13 506	29 824
18	VĮ „Panevėžio regiono keliai“	100 %	Transport	Lithuanian Road Administration	24 156	43 257
19	VĮ „Šiaulių regiono keliai“	100 %	Transport	Lithuanian Road Administration	35 899	58 144
20	VĮ „Tauragės regiono keliai“	100 %	Transport	Lithuanian Road Administration	13 007	27 183
21	VĮ „Telšių regiono keliai“	100 %	Transport	Lithuanian Road Administration	12 511	29 971
22	VĮ „Utenos regiono keliai“	100 %	Transport	Lithuanian Road Administration	22 076	36 264
23	VĮ „Vilniaus regiono keliai“	100 %	Transport	Lithuanian Road Administration	26 104	42 933
24	AB „Lietuvos geležinkeliai“	100 %	Transport	Ministry of Transport and Communications	1 404 243	4 510 323
25	AB „Lietuvos jūrų laivinkystė“	57 %	Transport	Ministry of Transport and Communications	62 172	248 571
26	AB „Smiltynės perkėla“	99 %	Transport	Ministry of Transport and Communications	13 744	43 801
27	AB Lietuvos paštas	100 %	Transport	Ministry of Transport and Communications	174 137	219 766
28	UAB „Geležinkelių projektavimas“	100 %	Transport	Ministry of Transport and Communications	2 136	1 811
29	VĮ „Kauno aerouostas“	100 %	Transport	Ministry of Transport and Communications	3 610	168 787
30	VĮ „Oro navigacija“	100 %	Transport	Ministry of Transport and Communications	72 981	159 972
31	VĮ „Vidaus vandens kelių direkcija“	100 %	Transport	Ministry of Transport and Communications	4 693	72 423
32	VĮ Klaipėdos valstybinio jūrų uosto direkcija	100 %	Transport	Ministry of Transport and Communications	148 393	1 189 192
33	VĮ Tarptautinis Palangos oro uostas	100 %	Transport	Ministry of Transport and Communications	3 764	130 910
34	VĮ Tarptautinis Vilniaus oro uostas	100 %	Transport	Ministry of Transport and Communications	42 310	319 286
35	VĮ Transporto ir kelių tyrimo institutas	100 %	Transport	Ministry of Transport and Communications	7 728	14 323
36	VĮ Valstybinis miškotvarkos institutas	100 %	Forestry	Ministry of Environment	5 352	4 720
37	VĮ Alytaus miškų urėdija	100 %	Forestry	Directorate General of State Forests	6 511	11 968
38	VĮ Anykščių miškų urėdija	100 %	Forestry	Directorate General of State Forests	8 090	10 747

No.	Company or organization	State interest	Sector	Accountability	Net turnover in 2010, LTL thous.	Total assets in 2010, LTL thous.
39	VĮ Biržų miškų urėdija	100 %	Forestry	Directorate General of State Forests	11 177	16 527
40	VĮ Druskininkų miškų urėdija	100 %	Forestry	Directorate General of State Forests	6 077	7 717
41	VĮ Dubravos eksperimentinė-mokomoji miškų urėdija	100 %	Forestry	Directorate General of State Forests	13 843	15 626
42	VĮ Ignalinos miškų urėdija	100 %	Forestry	Directorate General of State Forests	5 861	6 302
43	VĮ Jonavos miškų urėdija	100 %	Forestry	Directorate General of State Forests	7 887	8 629
44	VĮ Joniškio miškų urėdija	100 %	Forestry	Directorate General of State Forests	7 254	10 200
45	VĮ Jurbarko miškų urėdija	100 %	Forestry	Directorate General of State Forests	13 149	19 205
46	VĮ Kaišiadorių miškų urėdija	100 %	Forestry	Directorate General of State Forests	12 995	13 555
47	VĮ Kauno miškų urėdija	100 %	Forestry	Directorate General of State Forests	9 074	10 822
48	VĮ Kazlų rūdos mokomoji miškų urėdija	100 %	Forestry	Directorate General of State Forests	10 939	10 636
49	VĮ Kėdainių miškų urėdija	100 %	Forestry	Directorate General of State Forests	10 846	18 807
50	VĮ Kretingos miškų urėdija	100 %	Forestry	Directorate General of State Forests	13 436	22 634
51	VĮ Kupiškio miškų urėdija	100 %	Forestry	Directorate General of State Forests	4 244	4 896
52	VĮ Kuršėnų miškų urėdija	100 %	Forestry	Directorate General of State Forests	7 761	13 438
53	VĮ Marijampolės miškų urėdija	100 %	Forestry	Directorate General of State Forests	7 458	6 441
54	VĮ Mažeikių miškų urėdija	100 %	Forestry	Directorate General of State Forests	12 590	12 020
55	VĮ Nemenčinės miškų urėdija	100 %	Forestry	Directorate General of State Forests	8 678	10 686
56	VĮ Pakruojo miškų urėdija	100 %	Forestry	Directorate General of State Forests	8 134	6 312
57	VĮ Panevėžio miškų urėdija	100 %	Forestry	Directorate General of State Forests	14 993	22 801
58	VĮ Prienų miškų urėdija	100 %	Forestry	Directorate General of State Forests	12 124	13 102
59	VĮ Radviliškio miškų urėdija	100 %	Forestry	Directorate General of State Forests	8 346	11 634
60	VĮ Raseinių miškų urėdija	100 %	Forestry	Directorate General of State Forests	7 825	10 221
61	VĮ Rietavo miškų urėdija	100 %	Forestry	Directorate General of State Forests	8 957	10 390
62	VĮ Rokiškio miškų urėdija	100 %	Forestry	Directorate General of State Forests	7 795	6 946
63	VĮ Šakių miškų urėdija	100 %	Forestry	Directorate General of State Forests	9 827	10 325
64	VĮ Šalčininkų miškų urėdija	100 %	Forestry	Directorate General of State Forests	9 701	11 015
65	VĮ Šiaulių miškų urėdija	100 %	Forestry	Directorate General of State Forests	10 862	12 297
66	VĮ Šilutės miškų urėdija	100 %	Forestry	Directorate General of State Forests	11 963	12 776
67	VĮ Švenčionėlių miškų urėdija	100 %	Forestry	Directorate General of State Forests	11 036	13 882
68	VĮ Tauragės miškų urėdija	100 %	Forestry	Directorate General of State Forests	15 956	20 541
69	VĮ Telšių miškų urėdija	100 %	Forestry	Directorate General of State Forests	12 873	16 320
70	VĮ Tytuvėnų miškų urėdija	100 %	Forestry	Directorate General of State Forests	5 820	7 215
71	VĮ Trakų miškų urėdija	100 %	Forestry	Directorate General of State Forests	13 100	14 034

## LIST OF ENTERPRISES

No.	Company or organization	State interest	Sector	Accountability	Net turnover in 2010, LTL thous.	Total assets in 2010, LTL thous.
72	VĮ Ukmergės miškų urėdija	100 %	Forestry	Directorate General of State Forests	14 215	16 657
73	VĮ Utenos miškų urėdija	100 %	Forestry	Directorate General of State Forests	4 655	4 660
74	VĮ Valkininkų miškų urėdija	100 %	Forestry	Directorate General of State Forests	14 285	14 139
75	VĮ Varėnos miškų urėdija	100 %	Forestry	Directorate General of State Forests	11 099	11 773
76	VĮ Veisiejų miškų urėdija	100 %	Forestry	Directorate General of State Forests	7 206	8 160
77	VĮ Vilniaus miškų urėdija	100 %	Forestry	Directorate General of State Forests	11 612	16 411
78	VĮ Zarasų miškų urėdija	100 %	Forestry	Directorate General of State Forests	4 724	4 715
79	UAB „Projektų ekspertizė“	100 %	Other	Ministry of Environment	1 942	3 801
80	VĮ Statybos produkcijos sertifikavimo centras	100 %	Other	Ministry of Environment	3 076	3 509
81	VĮ Lietuvos naftos produktų agentūra	100 %	Other	Ministry of Energy	57 907	398 699
82	UAB „Būsto paskolų draudimas“	100 %	Other	Ministry of Finance	12 105	175 478
83	VĮ „Indėlių ir investicijų draudimas“	100 %	Other	Ministry of Finance	990	1 546 054
84	VĮ „Lietuvos prabavimo rūmai“	100 %	Other	Ministry of Finance	1 765	12 310
85	VĮ Turto bankas	100 %	Other	Ministry of Finance	5 929	278 823
86	VĮ prie Alytaus pataisos namų	100 %	Other	Prison Department	4 738	5 104
87	VĮ prie Marijampolės pataisos namų	100 %	Other	Prison Department	5 663	13 651
88	VĮ prie Pravieniškių 1-ųjų pataisos namų	100 %	Other	Prison Department	11 650	13 533
89	UAB „Lietuvos kinas“	100 %	Other	Ministry of Culture	1 019	3 868
90	VĮ „Vilniaus pilių direkcija“	100 %	Other	Ministry of Culture	572	248 144
91	VĮ „Lietuvos paminklai“	100 %	Other	Department of Cultural Heritage	34 467	2 216
92	UAB „Respublikinė mokomoji sportinė bazė“	100 %	Other	Department of Physical Education and Sports	238	701
93	UAB „Sportininkų testavimo ir reabilitacijos centras“	100 %	Other	Department of Physical Education and Sports	381	1 646
94	UAB „Lietuvos monetų kalykla“	100 %	Other	Bank of Lithuania	15 478	24 525
95	UAB „Kauno naujamiesčio darbo rinkos mokymo centras“	99,66 %	Other	Lithuanian Job Market Training Service 720		682
96	VĮ Valstybės turto fondas	100 %	Other	Government of the Republic of Lithuania	4 579	13 092
97	AB „Informacinio verslo paslaugų įmonė“	52 %	Other	Lithuanian Statistics	2 718	5 502
98	VĮ Distancinių tyrimų ir geoinformatikos centras „Gis-centras“	100 %	Other	National Land Service	1 892	9 263
99	UAB „Baldžio šilas“	71 %	Other	Department for the Affairs of the Disabled	2 390	8 302
100	VĮ Seimo leidykla „Valstybės žinios“	100 %	Other	Office of the Seimas	4 532	7 209
101	UAB „Kauno Petrašiūnų darbo rinkos mokymo centras“	54 %	Other	Social Care Administration Service	2 414	2 912
102	AB „Detonas“	100 %	Other	Ministry of Transport and Communications	6 602	14 506
103	AB „Geležinkelio apsaugos želdiniai“	100 %	Other	Ministry of Transport and Communications	225	5 239
104	AB „Problematika“	100 %	Other	Ministry of Transport and Communications	14 532	27 961
105	AB Lietuvos radijo ir televizijos centras	100 %	Other	Ministry of Transport and Communications	67 544*****	157 874*****

No.	Company or organization	State interest	Sector	Accountability	Net turnover in 2010, LTL thous.	Total assets in 2010, LTL thous.
106	VĮ „Universiteto vaistinė“	100 %	Other	Ministry of Health	5 228	3 465
107	AB „Mintis“	81 %	Other	Ministry of Education and Science	888	2 533
108	VĮ „Teisinės informacijos centras“***	100 %	Other	Ministry of Justice	1 255	2 129
109	VĮ Registrų centras	100 %	Other	Ministry of Justice	83 766	81 162
110	AB Giraitės ginkluotės gamykla	100 %	Other	Ministry of Economy	14 936	61 862
111	UAB „Investicijų ir verslo garantijos“	100 %	Other	Ministry of Economy	4 911	56 151
112	UAB „Toksika“	93 %	Other	Ministry of Economy	3 635	138 500
113	UAB Lietuvos parodų ir kongresų centras „LITEXPO“	99 %	Other	Ministry of Economy	11 813	47 766
114	VĮ „Pajūrio vėtrungė“	100 %	Other	Ministry of Economy	672	7 422
115	VĮ „Visagino statybininkai“***	100 %	Other	Ministry of Economy	2 608	11 261
116	VĮ Poilsio namai „Baltija“	100 %	Other	Ministry of Economy	4 947	10 838
117	UAB Lietuvos tyrimų centras	100 %	Other	Ministries of Economy and Education and Science, 50 percent each	0	684
118	UAB Žurnalas „Sveikata“	100 %	Other	Ministry of Health	90	33
119	UAB „Vilniaus veterinarijos klinikinė ligoninė“	100 %	Other	State Food and Veterinary Service	61	22
120	AB „Šiaulių metrologijos centras“	100 %	Other	State Metrology Service	893	938
121	AB „Vilniaus metrologijos centras“	100 %	Other	State Metrology Service	4 943	10 940
122	AB Klaipėdos metrologijos centras	100 %	Other	State Metrology Service	1 409	1 464
123	VĮ Kauno metrologijos centras	100 %	Other	State Metrology Service	2 634	3 376
124	VĮ Panevėžio metrologijos centras	100 %	Other	State Metrology Service	1 289	1 303
125	UAB „Palangos žvorūnė“	100 %	Other	State Social Insurance Fund Board	1 112	14 892
126	UAB „Senevita“	100 %	Other	State Social Insurance Fund Board	3 419	3 324
127	UAB sanatorija „Pušyno kelias“	100 %	Other	State Social Insurance Fund Board	4 957	7 858
128	VĮ „Infostruktūra“	100 %	Other	Ministry of the Interim	14 700	20 115
129	VĮ „Regitra“	100 %	Other	Ministry of the Interim	67 021	54 525
130	AB „Jonavos grūdai“	70 %	Other	Ministry of Agriculture	12 515	18 737
131	AB „Marijampolės regiono veislininkystė“	89 %	Other	Ministry of Agriculture	1 023	2 912
132	AB „Šiaulių regiono veislininkystė“	100 %	Other	Ministry of Agriculture	2 292	5 720
133	UAB „Aerogeodezijos institutas“	100 %	Other	Ministry of Agriculture	3 557	8 309
134	UAB „Gyvulių produktyvumo kontrolė“	100 %	Other	Ministry of Agriculture	10 292	3 616
135	UAB „Klaipėdos žuvininkystės produktų aukcionas“	100 %	Other	Ministry of Agriculture	641	4 273
136	UAB „Nemuno žirgynas“	90 %	Other	Ministry of Agriculture	n d	n d
137	UAB „Panevėžio veislininkystė“	97 %	Other	Ministry of Agriculture	125	842
138	UAB „Sartų žirgynas“	85 %	Other	Ministry of Agriculture	88	1 809
139	UAB „Šeduvos avininkystė“	100 %	Other	Ministry of Agriculture	89	1 548
140	UAB „Šilutės polderiai“	81 %	Other	Ministry of Agriculture	5 280	4 621
141	UAB „Šilutės veislininkystė“	97 %	Other	Ministry of Agriculture	937	3 292
142	UAB „Valstybinė projektų ir sąmatų ekspertizė“	100 %	Other	Ministry of Agriculture	610	651
143	UAB „Vilniaus žirgynas“	88 %	Other	Ministry of Agriculture	434	2 199
144	UAB Lietuvos žemdirbystės instituto Dotnuvos eksperimentinis ūkis	100 %	Other	Ministry of Agriculture	3 123	4 088
145	UAB Upytės eksperimentinis ūkis	100 %	Other	Ministry of Agriculture	5 108	6 711

LIST OF ENTERPRISES

No.	Company or organization	State interest	Sector	Accountability	Net turnover in 2010, LTL thous.	Total assets in 2010, LTL thous.
146	UAB Žemės ūkio paskolų garantijų fondas	100 %	Other	Ministry of Agriculture	3 279	259 122
147	VĮ „Pieno tyrimai“	100 %	Other	Ministry of Agriculture	14 500	21 738
148	VĮ Lietuvos žemės ūkio ir maisto produktų rinkos reguliavimo agentūra	100 %	Other	Ministry of Agriculture	14 857	120 031
149	VĮ Valstybės žemės fondas	100 %	Other	Ministry of Agriculture	11 675	10 959
150	VĮ Žemės ūkio informacijos ir kaimo verslo centras	100 %	Other	Ministry of Agriculture	4 332	14 747

\* Directly and indirectly. State enterprises (VĮ) are 100 percent owned by the State.

\*\* Companies in the process of reorganisation.

\*\*\* Aggregate data of two former power grid operators.

\*\*\*\* Litgrid AB was established on 16 November 2010 as part of the restructuring of the country's energy sector. The company took over part of operations from Lietuvos Energija AB.

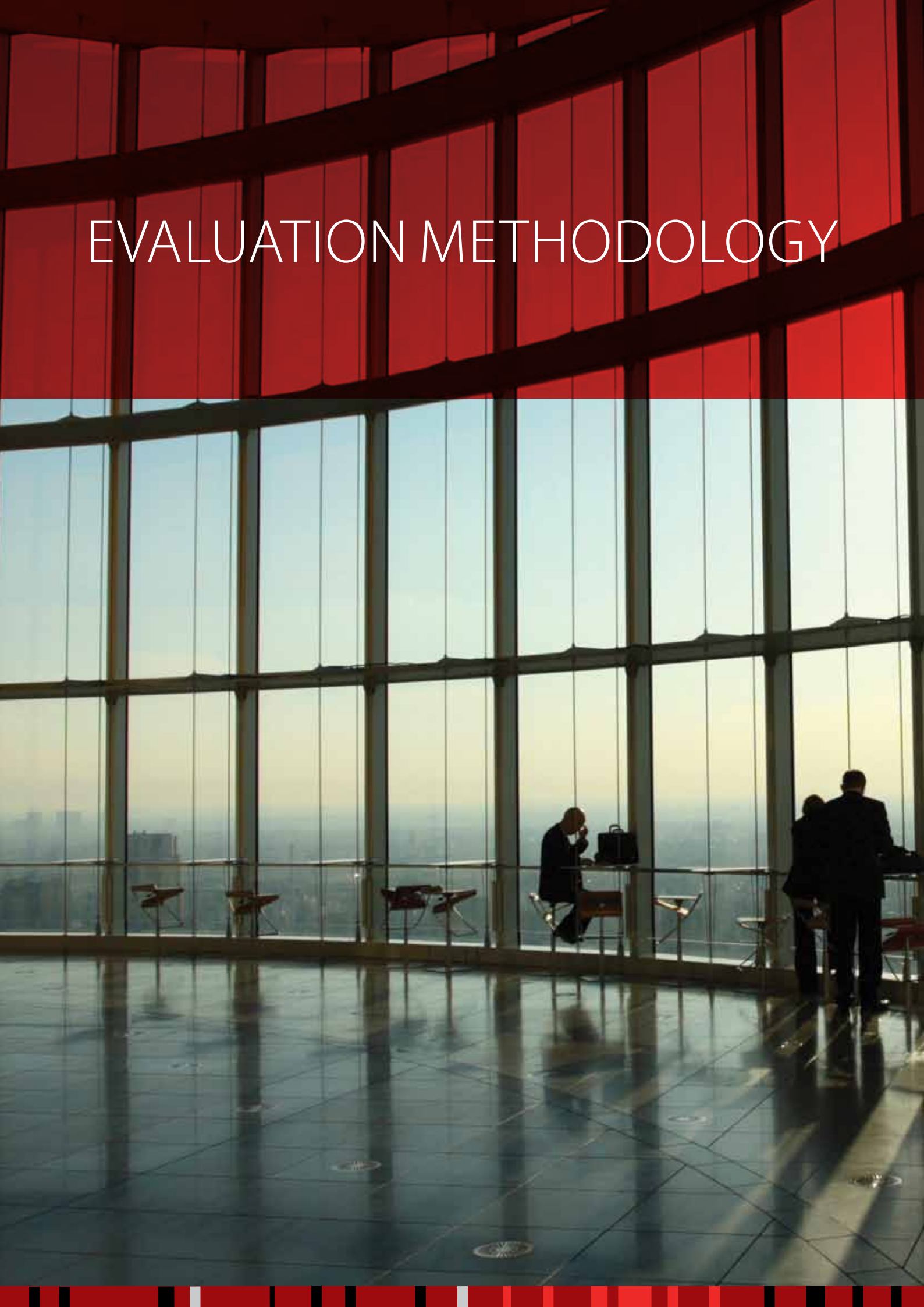
\*\*\*\*\* Data from financial statements that have not been approved by shareholders.

<sup>1</sup> The State owns directly 20 percent of shares in Visaginas Nuclear Power Plant, the remaining 80 percent is controlled through LEO LT, the company currently undergoing liquidation procedures.

<sup>2</sup> The companies directly controlled by the Visaginas Nuclear Power Plant.

<sup>3</sup> Ignalina Nuclear Power Plant is in the process of decommissioning; its last reactor was shut down on 31 December 2009.

# EVALUATION METHODOLOGY



## EVALUATION METHODOLOGY

While analysing the financial operations, aggregate financial data have been assessed due to the absence of consolidated financial reports representing the overall commercial assets owned by the State and prepared according to the International Accounting Standards. Due to the lack of data, internal transactions between companies have not been eliminated. Consolidated financial data was used while providing the information on the Visaginas Nuclear Power Plant (energy sector), Lithuanian Railways (transport sector) and the state-owned forest enterprises.

Lithuanian companies are free to choose between 19 formats of financial reporting while presenting the information to the Centre of Registers. Making use of their experience in financial accounting, the contributors to this publication have adjusted the financial information provided by companies in order to aggregate the data. In the process of aggregation, the equity method has been employed when assessing the enterprises in which the State holds stakes of less than 50%. A portion of their financial assets, equity and revenue corresponding to the State interest in the companies has been added to the aggregate figures.

Most state-owned enterprises perform both commercial and non-commercial functions. Therefore the assessment of these enterprises by using indicators that show the market value of commercial companies is inadequate. To calculate the market value of state-owned enterprises the following methods have been employed:

- share prices for listed companies, as of December 31, 2010;
- book value of equity, on an assumption that the book value of assets equals its market value;
- discounted cash flow, for state-owned forest enterprises; their key assessment principles, as well as the value of forests, remained unchanged from 2009;
- the value of roads have been deducted from balance sheets of the regional road maintenance enterprises because roads, as a public product, does not generate direct cash flow in Lithuania and thus their market value stands at zero;
- the market value of state-owned enterprises represents the State's interest only, i. e. the minority interest has been ignored;
- the overall value of the state-owned real estate, provided by independent experts, has been left unchanged from 2009 because the reform in this field is ongoing;

The financial information provided in this publication has been drawn from annual reports, the Register of Legal Persons, and other sources. The information has not been revised by independent auditors.

Financial reports of some enterprises presented in this publication have not been audited. Most of these enterprises are outside the three key sectors.

This annual report has been prepared by the Ministry of Economy of the Republic of Lithuania following the terms and requirements set in the three resolutions passed by the Government of the Republic of Lithuania, including No. 1052, of July 14, 2010, which describes the measures aimed at ensuring the transparency of state-owned enterprises; No. 1731, of December 1, 2010, which approves the framework of measures aimed at higher efficiency of state-owned enterprises; No. 172 of February 9, 2011, which brings forward the 2011-2012 programme of management reform of state-owned enterprises.

In the preparation of this report, a number of information sources have been used, such as corporate websites and data, the Centre of Registers, Statistics Lithuania, the Lithuanian Forest Inventory and Management Institute, the National Control Commission for Prices and Energy, the Communications Regulatory Authority, the Nasdaq OMX Vilnius Stock Exchange, and ministries.

The contributors to this report do not guarantee nor take any responsibility for the trustworthiness, thoroughness and accuracy of the information provided. The contributors to this report have not carried out any independent verification of the information, including calculations and forecasts. Any person should make her or his personal assessment before taking any decision involving the information provided in this publication. Neither the contributors to this report nor the Government or any other State institution or any subject under their control shall under no circumstances be liable for the third-party decisions based on information, statements and opinions presented in this report. The companies' past results do not guarantee and can not be attributable to their future performance.

This annual report is not intended as investment advice, or an offer or solicitation for the purchase or sale of any securities or any other assets, or to take any investment decision or any decision to complete any transaction.

the 1990s, the number of people in the UK who are aged 65 and over has increased from 10.5 million to 13.5 million (19.5% of the population).

There is a growing awareness of the need to address the needs of older people, and the Government has set out a strategy for the 21st century in the White Paper on *Ageing Better: The Government's Strategy for Older People* (Department of Health 1999). This paper sets out the Government's strategy for older people, and the role of the health service in meeting their needs.

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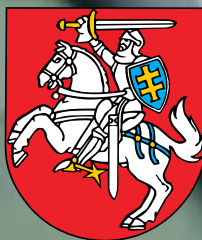
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Annual Report. Lithuanian State-Owned Enterprises in 2010.

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State-Owned Enterprise Policy Division

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