

**AB KAUNO ENERGIJA**  
SET OF CONSOLIDATED AND PARENT  
COMPANY'S FINANCIAL STATEMENTS FOR  
THE YEAR, ENDED 31 DECEMBER 2011,  
PREPARED ACCORDING TO  
INTERNATIONAL FINANCIAL REPORTING  
STANDARDS, AS ADOPTED BY THE  
EUROPEAN UNION, PRESENTED TOGETHER  
WITH CONSOLIDATED ANNUAL REPORT  
AND INDEPENDENT AUDITOR'S REPORT

*Translation note*

*This set of Consolidated and Parent Company's Financial Statements presented together with Consolidated Annual Report and Independent Auditor's Report has been prepared in Lithuanian language and in English language. In all matters of interpretations of information, views or opinions, the Lithuanian language version of these documents takes precedence over the English version.*

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## INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB KAUNO ENERGIJA:

### Report on the Financial Statements

We have audited the accompanying financial statements of AB KAUNO ENERGIJA (hereafter – the Company) and the consolidated financial statements of AB KAUNO ENERGIJA and its subsidiary (hereafter – the Group), which comprise the Company's and the Group's statements of financial position as at 31 December 2011, and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 5-57.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

#### *Basis for Qualified Opinion*

The carrying value of property, plant and equipment of the Group and the Company amounting to LTL 336 million and LTL 335 million, respectively, at 31 December 2011 (31 December 2010: LTL 319 million and LTL 317 million, respectively) includes assets with the carrying value of LTL 132 million (31 December 2010: LTL 134 million) received as a contribution in-kind from one of the Company's shareholders in 2009. The fair value of these assets acquired from the shareholder was estimated upon their transfer to the Company by local independent qualified valuers using depreciated replacement cost method and was not subject to adequate profitability test as required by the International valuation standards and therefore, may not be a reliable estimate of their fair value. Following to the provision of IAS 16 "Property, plant and equipment", the cost of property, plant and equipment acquired in exchange for non-monetary assets should be measured at fair value. In the absence of reliable information about the fair value of these assets we were unable to satisfy ourselves as to determine whether the assets received as a contribution in-kind have been recognized in appropriate values in accordance with the International Financial Reporting Standards as adopted by the European Union.

#### *Qualified Opinion*

In our opinion, except for the possible effect of the matter described in Basis for Qualified Opinion paragraph, the financial statements and consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with the requirements of the Republic of Lithuania Law on Accounting and Financial Reporting and International Financial Reporting Standards as adopted by the European Union.

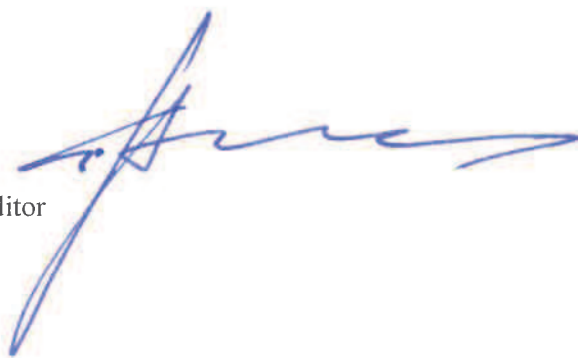
#### **Report on Other Legal and Regulatory Requirements**

Furthermore, we have read the accompanying consolidated annual report for the year ended 31 December 2011, set out on pages 58 – 121 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements for the year ended 31 December 2011.

Deloitte Lietuva UAB  
Licence No 001275

Sigitas Babarskas  
Lithuanian Certified Auditor  
Licence No 000403

Vilnius, Lithuania  
29 March 2012



## Statements of Financial Position

		Group		Company	
		As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
	Notes				
ASSETS					
Non-current assets					
Intangible assets	3	305	626	299	614
Property, plant and equipment	4				
Land and buildings		27,673	28,654	26,259	27,184
Structures and machinery		295,319	273,796	295,336	273,819
Vehicles		259	466	242	404
Equipment and tools		11,880	5,548	11,813	5,456
Construction in progress and prepayments		998	10,181	998	10,181
Total property, plant and equipment		336,129	318,645	334,648	317,044
Non-current financial assets					
Investments into subsidiary	1	-	-	5,341	5,558
Non-current accounts receivable	5	43	61	43	61
Other financial assets	6	95	237	95	237
Total non-current financial assets		138	298	5,479	5,856
Total non-current assets		336,572	319,569	340,426	323,514
Current assets					
Inventories and prepayments					
Inventories	7	4,746	5,270	4,622	5,144
Prepayments		405	507	475	598
Total inventories and prepayments		5,151	5,777	5,097	5,742
Current accounts receivable	8				
Trade receivables		58,994	72,245	58,907	71,989
Other receivables		5,602	5,597	5,740	5,772
Total accounts receivable		64,596	77,842	64,647	77,761
Cash and cash equivalents	9	5,936	3,574	5,899	3,524
Total current assets		75,683	87,193	75,643	87,027
Total assets		412,255	406,762	416,069	410,541


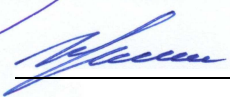
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**Statements of Financial Position**  
**(cont'd)**

		<b>Group</b>		<b>Company</b>	
		<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>
		<b>December</b>	<b>December</b>	<b>December</b>	<b>December</b>
	<b>Notes</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	<b>1</b>	256,392	256,392	256,392	256,392
Legal reserve	<b>10</b>	635	448	635	448
Other reserve	<b>10</b>	3,468	-	3,468	-
Retained earnings (deficit)					
Profit for the current year		13,540	4,167	13,442	3,737
Profit (loss) for the prior year		(3,353)	(3,865)	90	8
Total retained earnings (deficit)		10,187	302	13,532	3,745
<b>Total equity</b>		<b>270,682</b>	<b>257,142</b>	<b>274,027</b>	<b>260,585</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Non-current borrowings	<b>11</b>	32,169	31,811	32,169	31,811
Financial lease obligations	<b>12</b>	-	10	-	-
Deferred tax liability	<b>21</b>	6,771	5,551	7,440	6,220
Grants (deferred income)	<b>13</b>	22,211	16,790	22,211	16,790
Employee benefit liability	<b>14</b>	1,671	1,593	1,671	1,593
Other non-current liabilities		192	410	192	410
<b>Total non-current liabilities</b>		<b>63,014</b>	<b>56,165</b>	<b>63,683</b>	<b>56,824</b>
<b>Current liabilities</b>					
Current portion of non-current borrowings and financial lease	<b>11,12</b>	11,305	13,737	11,295	13,703
Current borrowings	<b>11</b>	7,765	15,023	7,765	15,023
Trade payables		54,927	60,981	55,000	60,977
Payroll-related liabilities		1,978	1,938	1,758	1,712
Advances received		953	570	946	571
Taxes payable		102	128	70	73
Derivative financial instruments	<b>15</b>	333	479	333	479
Current portion of employee benefit liability	<b>14</b>	735	237	735	237
Other current liabilities		461	362	457	357
<b>Total current liabilities</b>		<b>78,559</b>	<b>93,455</b>	<b>78,359</b>	<b>93,132</b>
<b>Total liabilities</b>		<b>141,573</b>	<b>149,620</b>	<b>142,042</b>	<b>149,956</b>
<b>Total equity and liabilities</b>		<b>412,255</b>	<b>406,762</b>	<b>416,069</b>	<b>410,541</b>

(the end)

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

General Manager	Rimantas Bakas		29 March 2012
Chief Accountant	Violeta Staškūnienė		29 March 2012

## Statements of Comprehensive Income

	Notes	Group		Company	
		2011	2010	2011	2010
<b>Income</b>					
Sales income	16	309,345	306,856	308,622	305,441
Other operating income	18	2,343	2,202	1,846	1,935
<b>Total income</b>		<b>311,688</b>	<b>309,058</b>	<b>310,468</b>	<b>307,376</b>
<b>Expenses</b>					
Fuel and heat acquired		(233,756)	(221,932)	(223,756)	(221,932)
Salaries and social security		(22,334)	(20,608)	(21,412)	(19,416)
Depreciation and amortisation	3,4	(15,888)	(15,788)	(15,842)	(15,709)
Repairs and maintenance		(5,703)	(4,236)	(5,703)	(4,236)
Write-offs and change in allowance for accounts receivable	5,8	(2,189)	(17,289)	(2,189)	(17,289)
Taxes other than income tax		(4,312)	(4,350)	(4,286)	(4,309)
Electricity		(2,515)	(2,558)	(2,504)	(2,546)
Petrašiūnai power plant operator expenses	1	-	(812)	-	(812)
Materials		(1,962)	(1,674)	(1,847)	(1,484)
Maintenance of heating and hot water systems		(463)	-	(1,026)	(552)
Water		(1,160)	(825)	(1,156)	(822)
Change in allowance for inventories	7	(999)	30	(999)	30
Other expenses	17	(10,661)	(9,598)	(10,541)	(9,360)
Other activities expenses	18	(1,334)	(1,349)	(677)	(808)
<b>Total expenses</b>		<b>(303,276)</b>	<b>(300,989)</b>	<b>(301,938)</b>	<b>(299,245)</b>
<b>Profit</b>		<b>8,412</b>	<b>8,069</b>	<b>8,530</b>	<b>8,131</b>
Finance income	19	8,001	2,024	8,001	2,024
Finance costs	20	(1,653)	(2,405)	(1,869)	(2,897)
<b>Finance cost, net</b>		<b>6,348</b>	<b>(381)</b>	<b>6,132</b>	<b>(873)</b>
<b>Profit before income tax</b>		<b>14,760</b>	<b>7,688</b>	<b>14,662</b>	<b>7,258</b>
Income tax	21	(1,220)	(3,521)	(1,220)	(3,521)
<b>Net profit</b>		<b>13,540</b>	<b>4,167</b>	<b>13,442</b>	<b>3,737</b>
<b>Total comprehensive income</b>		<b>13,540</b>	<b>4,167</b>	<b>13,442</b>	<b>3,737</b>
Profit attributable to the shareholders		13,540	4,167	13,442	3,737
Basic and diluted earnings per share (LTL)	22	0,32	0,10	0,31	0,09

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



General Manager	Rimantas Bakas		29 March 2012
Chief Accountant	Violeta Staškūnienė		29 March 2012

## Statements of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
<b>Balance as of 31 December 2009</b>		<b>255,710</b>	<b>233</b>	<b>-</b>	<b>(61)</b>	<b>255,882</b>
Total comprehensive income		-	-	-	4,167	4,167
Transferred from reserves	10	-	(233)	-	233	-
Transferred to reserves	10	-	448	-	(448)	-
Increase in share capital	1	682	-	-	-	682
Payment of dividends	1	-	-	-	(3,589)	(3,589)
<b>Balance as of 31 December 2010</b>		<b>256,392</b>	<b>448</b>	<b>-</b>	<b>302</b>	<b>257,142</b>
Transferred from reserves	10	-	187	3,468	(3,655)	-
Total comprehensive income		-	-	-	13,540	13,540
<b>Balance as of 31 December 2011</b>		<b>256,392</b>	<b>635</b>	<b>3,468</b>	<b>10,187</b>	<b>270,682</b>

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
<b>Balance as of 31 December 2009</b>		<b>255,710</b>	<b>-</b>	<b>-</b>	<b>4,045</b>	<b>259,755</b>
Total comprehensive income		-	-	-	3,737	3,737
Transferred to reserves	10	-	448	-	(448)	-
Payment of dividends	1	-	-	-	(3,589)	(3,589)
Increase in share capital	1	682	-	-	-	682
<b>Balance as of 31 December 2010</b>		<b>256,392</b>	<b>448</b>	<b>-</b>	<b>3,745</b>	<b>260,585</b>
Total comprehensive income		-	-	-	13,442	13,442
Transferred from reserves	10	-	187	3,468	(3,655)	-
<b>Balance as of 31 December 2011</b>		<b>256,392</b>	<b>635</b>	<b>3,468</b>	<b>13,532</b>	<b>274,027</b>

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

General Manager	Rimantas Bakas		29 March 2012
Chief Accountant	Violeta Staškūnienė		29 March 2012



## Statements of Cash Flows

	Group		Company	
	2011	2010	2011	2010
<b>Cash flows from (to) operating activities</b>				
Net profit	<b>13,540</b>	<b>4,167</b>	<b>13,442</b>	<b>3,737</b>
<b>Adjustments for non-cash items:</b>				
Depreciation and amortisation	17,916	17,345	17,778	17,173
Write-offs and change in allowance for accounts receivable	2,206	17,321	2,206	17,321
Interest expenses	1,466	2,177	1,465	2,175
Change in fair value of derivatives	(146)	(308)	(146)	(308)
Loss (profit) from sale and write-off of property, plant and equipment and impairment loss	205	309	205	309
(Amortisation) of grants (deferred income)	(896)	(632)	(896)	(632)
Change in allowance for inventories	999	(30)	999	(30)
Change employee benefit liability	719	(362)	719	(362)
Income tax expenses	1,220	3,521	1,220	3,521
Change in accruals	(265)	(211)	(233)	(268)
Impairment of investment in subsidiary	-	-	217	495
Elimination of other financial and investing activity results	(7,810)	(1,686)	(7,811)	(1,686)
<b>Total adjustments for non-cash items:</b>	<b>15,614</b>	<b>37,444</b>	<b>15,723</b>	<b>37,708</b>
<b>Changes in working capital:</b>				
Decrease in inventories	(450)	132	(452)	156
(Increase) decrease in prepayments	102	109	123	212
(Increase) in trade receivables	11,038	(29,611)	10,869	(29,670)
(Increase) decrease in other receivables	(586)	(794)	(549)	(670)
Increase in other non-current liabilities	34	3	34	3
Increase (decrease) in current trade payables and advances received	289	18,587	358	18,557
Increase (decrease) in payroll-related liabilities	72	126	46	52
(Decrease) increase in other liabilities to budget	(26)	(1,188)	(3)	(1,186)
(Decrease) in other current liabilities	(114)	(266)	(113)	(272)
<b>Total changes in working capital:</b>	<b>10,359</b>	<b>(12,902)</b>	<b>10,313</b>	<b>(12,818)</b>
<b>Net cash flows from operating activities</b>	<b>39,513</b>	<b>28,709</b>	<b>39,478</b>	<b>28,627</b>

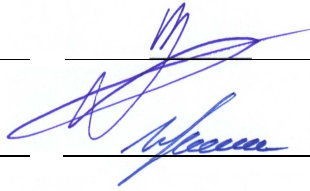

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The accompanying notes are an integral part of these financial statements.

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows from (to) the investing activities</b>				
(Acquisition) of tangible and intangible assets	(34,526)	(29,983)	(34,514)	(29,971)
Proceeds from sale of tangible assets	35	9	35	9
Interest received for overdue accounts receivable	1,869	1,704	1,869	1,704
Increase in cash flows from non-current accounts receivable	24	-	24	4
Interest received	26	12	26	12
<b>Net cash (used in) investing activities</b>	<b>32,572</b>	<b>(28,258)</b>	<b>(32,560)</b>	<b>(28,242)</b>
<b>Cash flows from (to) financing activities</b>				
Proceeds from loans	9,336	21,963	9,336	21,963
(Repayment) of loans	(18,644)	(20,925)	(18,644)	(20,925)
Interest (paid)	(1,949)	(2,388)	(1,948)	(2,386)
Financial lease (payments)	(34)	(51)	-	-
Penalties and fines (paid)	(45)	(30)	(44)	(30)
Dividends (paid)	-	(3,585)	-	(3,585)
Received grants	6,757	5,008	6,757	5,008
<b>Net cash flows from (used in) financing activities</b>	<b>(4,579)</b>	<b>(8)</b>	<b>(4,543)</b>	<b>45</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>2,362</b>	<b>443</b>	<b>2,375</b>	<b>430</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>3,574</b>	<b>3,131</b>	<b>3,524</b>	<b>3,094</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>5,936</b>	<b>3,574</b>	<b>5,899</b>	<b>3,524</b>

(the end)

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

General Manager	Rimantas Bakas		29 March 2012
Chief Accountant	Violeta Staškūnienė		29 March 2012

## Notes to the financial statements

### 1. General information

AB Kauno Energija (hereinafter the Company) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows: Raudondvario Rd. 84, Kaunas, Lithuania.

AB Kauno Energija consists of the Company's head office and the branch of Jurbarko Šilumos Tinklai.

The Company is involved in heat, electricity generation and distribution and maintenance of the heating and hot water systems. The Company was registered on 1 July 1997 after the reorganisation of AB Lietuvos Energija. The Company's shares are traded on the Baltic Secondary List of the NASDAQ OMX Vilnius.

As of 31 December 2011 and of 31 December 2010 the shareholders of the Company were as follows:

	<b>As of 31 December 2011</b>		<b>As of 31 December 2010</b>	
	<b>Number of shares owned (unit)</b>	<b>Percentage of ownership (%)</b>	<b>Number of shares owned (unit)</b>	<b>Percentage of ownership (%)</b>
Kaunas city municipality	39,665,892	92.82	39,665,892	92.82
Kaunas district municipality	1,606,168	3.76	1,606,168	3.76
Jurbarkas district municipality	746,405	1.75	746,405	1.75
Other minor shareholders	713,512	1.67	713,512	1.67
	<b>42,731,977</b>	<b>100.00</b>	<b>42,731,977</b>	<b>100.00</b>

All the shares with a par value of LTL 6 each are ordinary shares. The Company did not hold its own shares in 2011 and 2010.

On 23 July 2009 in the Company's Shareholders Meeting it was decided to increase the share capital by issuing 22,700,000 ordinary shares with the par value LTL 6 each. Priority right to acquire issued shares was granted to Kaunas city municipality. The issue price of shares is equal to their nominal value. For this share the Company received a contribution in-kind comprising manifolds in Kaunas city with the value of LTL 136,200 thousand which was established by the independent property valutors under the replacement cost method.

On 17 February 2010 in the Company's Extraordinary Shareholders Meeting it was decided to increase the share capital by LTL 682 thousand (from LTL 255,710 thousand to LTL 256,392 thousand) issuing 113,595 ordinary shares with the par value LTL 6 each. The issue price of shares is equal to their nominal value. A building of a boiler house located in Kaunas city, owned by Kaunas City Municipality, and engineering networks located in Jurbarkas city, owned by Jurbarkas Region Municipality, were received as a non-monetary contribution in kind for these shares. The value of this non-monetary contribution as of the transfer date was determined by independent valutors under the replacement cost method.

All shares were fully paid as of 31 December 2011 and 2010.

On 13 May 2010 The Annual General Meeting of Shareholders has made a decision to pay LTL 3,589 thousand, i.e. at 8.4 cents a share in dividends from the profit of the year 2009. Dividends were paid in accordance with law. The unpaid part of dividends amounting to LTL 4 thousand which was not paid without a Company's fault is accounted for in other current liabilities in 31 December 2011 and 31 December 2010.

The Group and the Company also involved in maintenance of heating systems. On 1 July 2006 on the basis of Kaunas Energy Services Department AB Kauno Energija established the subsidiary UAB Pastatų Priežiūros Paslaugos (hereinafter the Subsidiary). The main activity of the Subsidiary is exploitation and maintenance of building heating network and heating consumption equipment, internal engineering networks and systems as well as building structures. After establishing of subsidiary the employees of the Company working at Kaunas

Energy Services Department were dismissed from the Company and hired by Subsidiary. From 1 July 2006 the Company is contracting the Subsidiary for permanent technical maintenance of heating and hot water supply systems.

The Group consists of the Company and the Subsidiary (hereinafter the Group):

<b>Company</b>	<b>Registration address</b>	<b>Share held by the Group</b>	<b>Cost of investment</b>	<b>Loss for the reporting period</b>	<b>Total equity</b>	<b>Main activities</b>
UAB Pastatų Priežiūros Paslaugos	Savanorių Ave. 347, Kaunas	100%	6,518	(217)	5,341	Maintenance of heating systems

As of 31 December 2011 accumulated impairment loss on investment in UAB Pastatų Priežiūros Paslaugos amounted to LTL 1,177 thousand (31 December 2010 - LTL 960 thousand) in the Company's profit or loss.

#### Legal Regulations

Operations of AB Kauno Energija are regulated by the Heating Law No. IX-1565 of 20 May 2003 of the Republic of Lithuania. Starting from 1 January 2008, the Law amending the Heating Law No. X-1329 of 20 November 2007 of the Republic of Lithuania came in to force. On 13 of October, 2011 the change in Heating Law has been announced. It determines that heating and hot water systems as well as heat points of blocks of flats must be supervised by the supervisor unrelated to the supplier of heat and hot water, who must be chosen by inhabitants of this block of flats, without reference to ownership of these heat points. This change in the Heating Law of the Republic of Lithuania No X-1613 came into force starting 1 of November, 2011. Any expenses, related to supervision of the heat points are not included in a heat price since that date.

According to the Heating Law of the Republic of Lithuania, the Company's activities are licensed and regulated by the State Price Regulation Commission of Energy Resources (hereinafter the Commission). On 26 February 2004 the Commission granted the Company the heat distribution license. The license has indefinite maturity, but is subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets price cap for the heat supply. On 12 September 2008 by the decision of the Commission, the territory in which the Company can provide heat distribution activity was re-defined, as the Company sold Paliai boiler house in Marijampolė district.

#### Operational Activity

The Company's generation capacity includes a power plant in Petrašiūnai, 3 district boiler-houses in Kaunas integrated network, 7 regional boiler-houses in Kaunas region, 1 regional boiler-house in Jurbarkas city, 14 isolated networks and 35 local gas burning boiler-houses in Kaunas.

Total installed heat and electricity generation capacity is 496,20 MW and 8.75 MW, respectively, out of which 254.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. 27 MW of heat generation capacity is located in Jurbarkas city. The total Company's power generation capacity is 504,95 MW.

In 2003 the Company sold part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter KTE) and committed to purchase at least 80% of the annual demand of the integrated heating network in Kaunas from this company. The contract is valid for 15 years from the sales agreement date. The contract established that the purchase price of heat energy from KTE would not increase during the first 5 years from the date of signing the contract. New heat sale price for KTE and the Company was approved by the Commission and became effective starting 1 December 2008. The Company participates as a third party in administrative litigation between KTE and the Commission.

On 8 June 2006 AB Kauno Energija signed the agreement with UAB Energijos Sistemų Servisas regarding the operation of Petrašiūnai power plant and its assets located at Jėgainės Str. 12, Kaunas. The contract was valid for a period of three years. Starting from 4 July 2006, UAB Energijos Sistemų Servisas started to provide operation services of Petrašiūnai power plant. A new contract valid until 4 August 2010 for a purchase of this service was signed with UAB Energijos Sistemų Servisas on 3 July 2009. After the end of agreement, the Company did not prolong a term of agreement and operates power plant itself.

In the year 2011 the average number of employees at the Group was 640 (622 employees in 2010). In the year 2011 the average number of employees at the Company was 585 (558 employees in 2010).

#### Strategic Decisions

On 14 October 2009, an administration of AB Kauno energija has been allowed by the decision No. 2009-23-2 of the Managing Board of the Company to announce a rent tender of the buildings, which are situated at the site of Petrašiūnai power plant in order to attract an external and additional finance for installation / building / reconstruction of biofuel facilities, buildings with steam turbine producing heat and electricity and for reconstruction of buildings. On 5 November 2009 this tender has been terminated by the decision N-2009-28-1 of AB Kauno energija Managing Board and considering the recommendation of Economy and Energy Committee of Kaunas City Council No MU-34 of 27 October 2009 and the decision of the Company supervisory council No 2009-04 of 5 November 2009.

On 19 April 2010 the College of the Kaunas City Council discussed the issue of establishing of the joint venture and has made a decision to agree in principle and to recommend to the Managing Board of AB Kauno energija to start the negotiations with UAB Fortum Heat Lietuva regarding the construction of the new local fuel-fired power plant and the establishment of the new joint venture. A working group for negotiations with UAB Fortum Heat Lietuva has been formed.

On 3 November 2010 the College of Kaunas City Council discussed the issue of the cooperation of AB Kauno energija and AB Lietuvos energija and decided to recommend to the Managing Board of AB Kauno energija to start the negotiations with AB Lietuvos energija regarding the construction of a new local fuel-fired power plant and the establishment of the new joint venture at the site of the present Petrašiūnai power plant. On 24 November 2010 the Managing Board of AB Kauno energija has made a decision No 2010-33-2 regarding establishment of the joint venture with AB Lietuvos energija.

On 18 August 2011 the negotiations with UAB Fortum Heat Lietuva were terminated by the decision No 2011-22-1 of Company's Managing Board due to the not forthcoming tenders. The decision No 2010-14-2.2 Regarding the establishment of negotiations group of 29 April 2010 and the decision No 2010-21-1. Regarding the specification of consist of negotiations group, authorized to negotiate with UAB Fortum Heat Lietuva of 14 July 2010 regarding establishment of joint venture, and regarding the confirmation of its working regulation has been recognized as spent.

On 18 August 2011 by the decision No 2011-22-1 of AB Kauno energija Managing Board has been recognized as spent the decision No 2010-33-2 of 24 November 2010 Regarding the establishment of joint venture with AB Lietuvos energija, by which the repartition of the shares and of the ensured votes at the General meeting of shareholders of established joint venture (hereinafter – Project Company) has been decided, the decision No 2011-4-1 of 21 February 2011 Regarding the modification and addition of decision No 2010-33-2 of 24 November 2010 of AB Kauno energija Managing Board Regarding establishment of joint venture, by which has been decided that it will be other repartition of the shares and of the ensured votes of the Project Company at the General meeting of shareholders (hereinafter – GMS); to plan in the project of prepared statute of the Project Company, that a qualified majority of votes at GMS of established Project Company, which is necessary in order to make decisions, indicated in part 1 of chapter 28 of the Lithuanian law of Joint-stock companies (hereinafter – AB), must be no less than 3/4 of all the votes of all shareholders taking part in shareholders meeting, and must be no less than 4/5 of all the votes of all shareholders taking part in shareholders meeting when the decisions indicated in part 2 of chapter 28 of the Lithuanian law of Joint-stock companies are made, the decision No 2011-8-1 of 16 March 2011 Regarding establishment documents of Petrašiūnų energija UAB, by which a further procedures of documents approximation of above mentioned company with representatives of AB Lietuvos energija has been assigned to working group, formed for establishment documents of Petrašiūnų

energija UAB preparation, the decision No 2011-11-1 of 13 April 2011 Regarding establishment documents of Petrašiūnų energija UAB, by which has been decided to correct additionally the project of Petrašiūnų energija UAB shareholders' agreement.

Assessing the above mentioned information about the decisions of Kaunas City Council College, unsuccessful negotiations with UAB Fortum Heat Lietuva and AB Lietuvos energija, the decisions of AB Kauno energija Managing Board from the period of 2009 - 2011 regarding biofuel usage in Petrašiūnai power plant, the Company's managing Board by its decision No 2011-22-1 of 18 August 2011 has allowed the administration to start a procedures of the lease of part of the buildings / structures situated at the site of Petrašiūnai power plant in order to attract investors for development of biofuel burned power plant construction project.

The Group and the Company invested LTL 35,202 and 35,190 thousand in the own property during 2011 (during 2010 – LTL 30,838 and 30,826 thousand).

On 14 of July, 2011 the Kaunas city council approved Company's investment plans for the years 2012 – 2015, according to which investments in amount of LTL 257.74 million are intended to invest into Company's assets during the period of the years 2012 – 2015.

In order to implement the European directives regarding Pollution Prevention and Renewable energy resources and to create premises for heat price reduction, the Company submitted 3 applications for the Lithuanian business support agency (hereinafter – LBSA) in November 2011 in order to get the partly financing from European Union structural funds (hereinafter - EUSF) for building of the new bio-fuel powered cogeneration power plants. The new cogeneration power plants in Petrašiūnai power plant territory, also in Inkaras and Noreikiškės boiler-houses territories would be built in accordance to these applications. All these three projects would contribute to the reduction of Greenhouse Gas Emissions.

The total amount requested is LTL 17.74 million. The amount of LTL 6 million is requested from EUSF for the project Building of bio-fuel powered cogeneration power plant in Inkaras boiler-house. The amount of LTL 5.74 million is asked from EUSF for the project Building of bio-fuel powered cogeneration power plant in Noreikiškės boiler-house. And for the project The reconstruction of Petrašiūnai power plant equipping with a new cogeneration bio-fuel power plant the amount of LTL 6 million is requested. Financing for these projects is requested according to the measure Use of renewable energy sources for energy production of the priority Environment and sustainable development of Operational Programme for Promotion of Cohesion.

The Company initiated those new bio-fuel cogeneration power plants projects regarding to conditionally high price of the heat, which is bought from KTE and in order to join Lithuania's international liabilities to increase usage of renewable sources for energy production and to reduce Lithuania's dependence from imported fossil fuel, and to provide heat energy at the competitive price.

It is planned, that the electric power of the plant which is intended to build in Company's Inkaras boiler-house would contain 3.5 MW and the heat power – approximately 11.4 MW, underrating the heat produced in condensation economizer. It is planned to produce about 107 GWh of heat energy with this new equipment annually, also rating the heat energy produced in condensation economizer, and approximately 25 GWh of electric energy. Approximately 67 thousand tons of wood would be used for the production of this energy annually.

The Company intends to build a cogeneration power plant, operating on a steam turbine basis in the Noreikiškės boiler-house. The capacity of produced electric energy could reach 0.4 MW there, and the capacity of produced heat energy could reach approximately 1.3 MW. It is planned to produce about 11.6 GWh of heat energy with this new equipment annually, also rating the heat energy produced in condensation economizer, and approximately 2.7 GWh of electric energy. Approximately 7.26 thousand tons of wood would be used for the production of this energy annually.

It is also planned to build a new cogeneration power plant, operating on a steam turbine basis in the Company's Petrašiūnai power plant. The capacity of produced electric energy could reach 16 MW there, and the capacity of produced heat energy could reach approximately 44 MW. It is planned to produce about 428.3 GWh of heat energy with this new equipment annually, also rating the heat energy produced in condensation economizer, and approximately 116.1 GWh of electric energy. Approximately 257.5 thousand tons of wood would be used for the production of this energy annually.

The Company presented applications to the Lithuanian Environmental Investment Fund (hereinafter - LEIF) regarding the financing of reconstructions of Noreikiškės and Ežerėlis boiler-houses equipping them with bio-fuel powered water boilers. The Company seeks to get a financial support in amount of approximately LTL 4.7 million for the financing of these projects from LEIF.

Currently the Company has got applications from 10 potential independent heat producers (the total power capacity – 260 MW) regarding the connection to the Company's integrated heat supply network. On 11 of November, 2011 the seminar – discussion for these potential independent heat producers has been arranged. At this seminar – discussion the Company announced that the connection to the network regulation (Grid-code) for potential independent heat producers will be created. The draft of this document is already done at the moment and the final version of the document will be presented shortly for public discussion. The document will be the first and without parallel in Lithuania. The continuity of the project is described in Note 26.

## **2. Accounting principles**

### **2.1. Adoption of new and revised Standards**

In the current year, the Company and the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB as adopted by the EU that are relevant to the Company and the Group operations.

#### ***Standards and Interpretations effective in the current period***

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- Amendments to IAS 24 “Related Party Disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- Amendments to IFRIC 14 “IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards has not led to any changes in the Company's and the Group's accounting policies.

***Standards and Interpretations issued by IASB and adopted by the EU but not yet effective***

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The Company and the Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company and the Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company and the Group in the period of initial application.

***Standards and Interpretations issued by IASB but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use at the date of publication of these financial statements:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2015),
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 “First-time Adoption of IFRS” - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” – Mandatory Effective Date and Transition Disclosures,
- Amendments to IAS 1 “Presentation of financial statements” -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- Amendments to IAS 19 “Employee Benefits” - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 32 “Financial instruments: presentation” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after 1 January 2013).

The Company and the Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.



The new IFRS 9 Financial Instruments might affect the Company's and the Group's financial reporting upon implementation. The scope of the effect cannot be determined at present, since the valuation of Company's and Group's financial assets are largely dependent on how the rules on hedge accounting and on the impairment of financial assets in the valuation category amortised cost are eventually worded. A judgment cannot be made until the remaining sections are issued.

The Company and the Group anticipates that the adoption of other standards, revisions and interpretations will have no material impact on the financial statements of the Company and the Group in the period of initial application.

## **2.2. Statement of Compliance**

The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and interpretations of them. The standards are issued by the International Accounting Standards Board (IASB) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

## **2.3. Basis of the preparation of financial statements**

The financial statements have been prepared on a cost basis, except for certain financial instruments, which are stated at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial year of the Company and other Group companies coincides with the calendar year.

Items included in the financial statements of the Group and the Company are measured using the currency of the primary economic environment in which they operate (the 'functional currency'). The amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, litas (LTL) which is a functional and presentation currency of the Company and its subsidiary and all values are rounded to the nearest thousand, except when otherwise indicated.

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

## **2.4. Principles of consolidation**

### Principles of consolidation

The consolidated financial statements of the Group include AB Kauno Energija and its subsidiary. The financial statements of the subsidiary are prepared for the same reporting period as the Company. Consolidated financial statements are prepared on the basis of the same accounting principles applied to similar transactions and other events under similar circumstances.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Subsidiary is the company which is directly or indirectly controlled by the parent company. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital or otherwise has power to govern the financial and operating policies of an enterprise so as to benefit from its activities.

#### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

### **2.5. Investments in subsidiaries**

Investments in subsidiaries in the Company's Statements of Financial Position are recognized at cost. The dividend income from the investment is recognized in the profit (loss).

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a subsidiary. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

### **2.6. Intangible assets**

#### Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

#### Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

#### Licenses

Amounts paid for licenses are capitalised and then amortised over useful life (3 - 4 years).

#### Software

The costs of acquisition of new software are capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised over a period not exceeding 3 years.

Costs incurred in order to restore or maintain the future economic benefits of performance of the existing software systems are recognised as an expense for the period when the restoration or maintenance work is carried out.

## **2.7. Accounting for emission rights**

The Group and the Company apply a 'net liability' approach in accounting for the emission rights received. It records the emission allowances granted to it at nominal amount, as permitted by IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

Liabilities for emissions are recognised only as emissions are made (i.e. provisions are never made on the basis of expected future emissions) and only when the reporting entity has made emissions in excess of the rights held.

When applying the net liability approach, the Group and the Company have chosen a system that measures deficits on the basis of an annual allocation of emission rights.

The outright sale of an emission right is recorded as a sale at the value of consideration received. Any difference between the fair value of the consideration received and its carrying amount is recorded as a gain or loss, irrespective of whether this creates an actual or an expected deficit of the allowances held. When a sale creates an actual deficit an additional liability is recognised with a charge to the profit or loss.

## **2.8. Property, plant and equipment**

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's and the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items in property, plant and equipment. Depreciation periods were revised as of 1 September 2008, as further described in Note 2.25.

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

	<b>Years</b>
Buildings	7 - 50
Structures and machinery	5 - 70
Vehicles	3 - 10
Equipment and tools	2 - 20

Freehold land is not depreciated.

The Group and the Company capitalizes property, plant and equipment purchases with useful life over one year and an acquisition cost above LTL 500.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

Lease hold improvement expenses related to property under rental and/or operating lease agreements which prolong the estimated useful life of the asset are capitalized and depreciated during the term of rental and/or operating lease agreements.

Construction-in-progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction-in-progress is not depreciated until the relevant assets are completed and put into operation.

## **2.9. Impairment of property, plant and equipment and intangible assets excluding goodwill**

At each statement of financial position date, the Group and the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Group's and Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## 2.10. Financial assets

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

### Effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

### Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

### Available-for-sale financial assets (AFS financial assets)

Available-for-sale financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Group and the Company that are traded in an active market are classified as available-for-sale and are stated at fair value. The Group and the Company also has investments in unlisted shares that are not traded in an active market but that are also classified as available-for-sale financial assets and stated at fair value (because the directors consider that fair value can be reliably measured). Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's and the Company's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Gains or losses are recognized in profit or loss when the asset value decreases or it is amortized.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organization, or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

#### Derecognition of financial assets

The Group and the Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group and the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group and the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

#### **2.11. Derivative financial instruments**

The Group and the Company uses derivative financial instruments such as interest rate swaps to hedge its interest rate risks. Such derivative financial Instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the profit (loss) for the period if they do not qualify for hedge accounting.

The fair value of interest rate swap contracts is determined by the reference to market values for similar instruments.

#### **2.12. Inventories**

Inventories are stated at the lower of cost or net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs of inventories are determined on a first-in, first-out (FIFO) basis.

The cost of inventories is net of volume discounts and rebates received from suppliers during the reporting period but applicable to the inventories still held in stock.

#### **2.13. Provisions**

Provisions are recognized when the Group and the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group and the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **2.14. Cash and cash equivalents**

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, cash with banks, cash in transit, deposits held at call with banks, and other short-term highly liquid investments.

## **2.15. Employee benefits**

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

## **2.16. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## **2.17. Financial liabilities and equity instruments**

### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group and the Company are recognized at the proceeds received, net of direct issue costs.

### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

### Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.



#### Derecognition of financial liabilities

The Group and the Company derecognises financial liabilities when, and only when, the Group's and the Company's obligations are discharged, cancelled or they expire.

### **2.18. Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group and the Company as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's and the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's and the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### The Group and the Company as lessee

Assets held under finance leases are initially recognised as assets of the Group and the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's and the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **2.19. Grants (deferred income)**

Government grants are not recognised until there is reasonable assurance that the Group and the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group and the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group and the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognized as deferred income and is credited to profit or loss in equal annual amounts over the expected useful life of related asset. In the statement of comprehensive income, a relevant expense account is reduced by the amount of grant amortisation.

Assets received free of charge are initially recognised at fair value.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

The balance of unutilised grants is shown in the caption Grants (deferred income) in the balance sheet.

## **2.20. Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2011 the income tax applied to the Group and the Company was 15% (2010 – 15%).

### Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such deferred assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group and the Company intends to settle its current tax assets and liabilities on a net basis.

#### Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

### **2.21. Basic and diluted earnings per share**

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. There are no instructions reducing earnings per share, there is no difference between the basic and diluted earnings per share.

### **2.22. Revenue recognition**

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

Revenue from sales of heat energy is recognised based on the bills issued to residential and other customers for heating and heating-up of cold water. The customers are billed monthly according to the readings of heat meters.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group and the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group and the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Late payment interest income from overdue receivables is recognised upon receipt.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably).

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's and the Company's policy for recognition of revenue from operating leases is described in Note 2.18 below.

### **2.23. Expense recognition**

Expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted for as the amount paid or due, excluding VAT. In those cases when a long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

### **2.24. Foreign currencies**

In preparing the financial statements of the individual entities of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The presentation currency is Litas (LTL). All transactions had functional currency other than LTL translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Gains and losses arising on exchange are included in profit or loss for the period.

As of 31 December the applicable rates used for principal currencies were as follows:

<b>2011</b>		<b>2010</b>	
1 EUR	= 3.4528 Lt	1 EUR	= 3.4528 Lt
1 USD	= 2.6694 Lt	1 USD	= 2.6099 Lt
1 GBP	= 4.131 Lt	1 GBP	= 4.0494 Lt

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

## 2.25. Use of estimates in the preparation of financial statements

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statements of Financial Position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Property, plant and equipment – useful life*

The key assumptions concerning determination the useful life of property, plant and equipment are as follows: expected usage of the asset, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in the services, legal or similar limits on the use of the asset, such as the expiry dates of related leases.

The Group and the Company has considered the actual useful life of property, plant and equipment and increased a depreciation rate for the heating connections from 20 years to 30 years and for the heating stations from 10 years to 15 years respectively starting from 1 September 2008.

#### Realisable value of inventory

Starting from 2011, the management of the Company has formed a 100 percent adjustment to the net realizable value for inventory bought more than one year ago.

#### *Carrying value of non-current assets received as a contribution in kind*

In 2009 for a new shares issue manifolds in Kaunas city were received as a contribution in-kind. Market value of assets estimated upon their transfer by local independent qualified valuers using depreciated replacement costs method amounted to LTL 136 million.

In 2010 a new emission of shares was issued and it was paid by non-monetary contribution: it is building – boiler-house in Kaunas city and networks system in Jurbarkas city. Market value of the asset upon their transfer was determined by the local independent qualified valuers by using depreciated replacement costs method and amounted to LTL 0.682 million.

Management has no information available about possible fair value of these non-current assets if they would be evaluated by using other valuation methods. As of 31 of December 2011, carrying value of all contribution in-kind amounted to LTL 131,785 thousand. (LTL 134,345 thousand – 31 December 2010).

#### *Allowances for accounts receivable*

The Group and the Company makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements.

#### *Deferred Tax Asset*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 21.

#### *Litigations*

The Group and the Company reviews all legal cases for the end of the reporting period and disclose all relevant information in the Note 24.

## **2.26. Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

## **2.27. Subsequent events**

Post-balance sheet events that provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

## **2.28. Offsetting and comparative figures**

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain IFRS specifically require such set-off.

## **2.29. Segments**

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

The activities of the Group and the Company are organised in one operating segment therefore further information on segments has not been disclosed in these financial statements

### 3. Intangible assets

Movements of intangible assets for the current and prior reporting periods are as follows:

	<b>Group</b>	<b>Company</b>
	<b>Patents, licenses</b>	
<b>Cost:</b>		
Balance as of 31 December 2009	<b>5,763</b>	<b>5,710</b>
Additions	55	55
Disposals and write-offs	(490)	(490)
Transfers to property, plant and equipment	(50)	(50)
Balance as of 31 December 2010	<b>5,278</b>	<b>5,225</b>
Additions	146	146
Disposals and write-offs	(137)	(137)
Balance as of 31 December 2011	<b>5,287</b>	<b>5,234</b>
<b>Amortisation:</b>		
Balance as of 31 December 2009	<b>4,521</b>	<b>4,488</b>
Charge for the year	621	613
Disposals and write-offs	(490)	(490)
Balance as of 31 December 2010	<b>4,652</b>	<b>4,611</b>
Charge for the year	467	461
Disposals and write-offs	(137)	(137)
Balance as of 31 December 2011	<b>4,982</b>	<b>4,935</b>
<b>Net book value as of 31 December 2009</b>	<b>1,242</b>	<b>1,222</b>
<b>Net book value as of 31 December 2010</b>	<b>626</b>	<b>614</b>
<b>Net book value as of 31 December 2011</b>	<b>305</b>	<b>299</b>

Amortisation expenses of intangible assets are included in the operating expenses in the statement of comprehensive income.

Part of the non-current intangible assets of the Group and the Company with the acquisition cost of LT 4,462 thousand as of 31 December 2011 (LTL 3,177 thousand as of 31 December 2010) were fully amortised but were still in active use.

#### 4. Property, plant and equipment

Group	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Construction in progress and prepayments	Total
<b>Cost:</b>						
<b>Balance as of 31 December 2009</b>	<b>56,656</b>	<b>496,254</b>	<b>4,662</b>	<b>18,226</b>	<b>16,134</b>	<b>591,932</b>
Additions	74	9,648	90	365	20,606	30,783
Disposals and write-offs	(35)	(2,161)	-	(160)	-	(2,356)
Reclassifications	254	25,579	-	726	(26,559)	-
Transfers from intangible assets	-	50	-	-	-	50
<b>Balance as of 31 December 2010</b>	<b>56,949</b>	<b>529,370</b>	<b>4,752</b>	<b>19,157</b>	<b>10,181</b>	<b>620,409</b>
Additions	-	717	-	2,676	31,663	35,056
Disposals and write-offs	(42)	(2,266)	(74)	(1,166)	-	(3,548)
Reclassifications	220	22,689	-	17,937	(40,846)	-
<b>Balance as of 31 December 2011</b>	<b>57,127</b>	<b>550,510</b>	<b>4,678</b>	<b>38,604</b>	<b>998</b>	<b>651,917</b>
<b>Accumulated depreciation and impairment losses:</b>						
<b>Balance as of 31 December 2009</b>	<b>27,117</b>	<b>244,352</b>	<b>4,010</b>	<b>11,751</b>	<b>-</b>	<b>287,230</b>
Charge for the year	1,191	13,304	276	1,953	-	16,724
Disposals and write-offs	(8)	(2,049)	-	(133)	-	(2,190)
Reclassifications	(5)	(33)	-	38	-	-
<b>Balance as of 31 December 2010</b>	<b>28,295</b>	<b>255,574</b>	<b>4,286</b>	<b>13,609</b>	<b>-</b>	<b>301,764</b>
Charge for the year	1,195	13,774	204	2,276	-	17,449
Disposals and write-offs	(27)	(2,193)	(71)	(1,134)	-	(3,425)
Reclassifications	(9)	(11,964)	-	11,973	-	-
<b>Balance as of 31 December 2011</b>	<b>29,454</b>	<b>255,191</b>	<b>4,419</b>	<b>26,724</b>	<b>-</b>	<b>315,788</b>
<b>Net book value as of 31 December 2009</b>	<b>29,539</b>	<b>251,902</b>	<b>652</b>	<b>6,475</b>	<b>16,134</b>	<b>304,702</b>
<b>Net book value as of 31 December 2010</b>	<b>28,654</b>	<b>273,796</b>	<b>466</b>	<b>5,548</b>	<b>10,181</b>	<b>318,645</b>
<b>Net book value as of 31 December 2011</b>	<b>27,673</b>	<b>295,319</b>	<b>259</b>	<b>11,880</b>	<b>998</b>	<b>336,129</b>



Company	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Construction in progress and prepayments	Total
<b>Cost:</b>						
<b>Balance as of 31 December 2009</b>	<b>54,115</b>	<b>495,539</b>	<b>3,451</b>	<b>17,948</b>	<b>16,134</b>	<b>587,187</b>
Additions	75	9,648	86	356	20,606	30,771
Disposals and write-offs	(36)	(2,161)	-	(148)	-	(2,345)
Reclassifications	253	25,670	-	636	(26,559)	-
Transfers from intangible assets	-	50	-	-	-	50
<b>Balance as of 31 December 2010</b>	<b>54,407</b>	<b>528,746</b>	<b>3,537</b>	<b>18,792</b>	<b>10,181</b>	<b>615,663</b>
Additions	-	717	-	2,664	31,663	35,044
Disposals and write-offs	(42)	(2,266)	(74)	(1,163)	-	(3,545)
Reclassifications	220	22,689	-	17,937	(40,846)	-
<b>Balance as of 31 December 2011</b>	<b>54,585</b>	<b>549,886</b>	<b>3,463</b>	<b>38,230</b>	<b>998</b>	<b>647,162</b>
<b>Accumulated depreciation and impairment losses:</b>						
<b>Balance as of 31 December 2009</b>	<b>26,103</b>	<b>243,666</b>	<b>2,925</b>	<b>11,544</b>	<b>-</b>	<b>284,238</b>
Charge for the year	1,133	13,305	208	1,914	-	16,560
Disposals and write-offs	(8)	(2,049)	-	(122)	-	(2,179)
Reclassifications	(5)	5	-	-	-	-
<b>Balance as of 31 December 2010</b>	<b>27,223</b>	<b>254,927</b>	<b>3,133</b>	<b>13,336</b>	<b>-</b>	<b>298,619</b>
Charge for the year	1,138	13,780	159	2,240	-	17,317
Disposals and write-offs	(26)	(2,193)	(71)	(1,132)	-	(3,422)
Reclassifications	(9)	(11,964)	-	11,973	-	-
<b>Balance as of 31 December 2011</b>	<b>28,326</b>	<b>254,550</b>	<b>3,221</b>	<b>26,417</b>	<b>-</b>	<b>312,514</b>
<b>Net book value as of 31 December 2009</b>	<b>28,012</b>	<b>251,873</b>	<b>526</b>	<b>6,404</b>	<b>16,134</b>	<b>302,949</b>
<b>Net book value as of 31 December 2010</b>	<b>27,184</b>	<b>273,819</b>	<b>404</b>	<b>5,456</b>	<b>10,181</b>	<b>317,044</b>
<b>Net book value as of 31 December 2011</b>	<b>26,259</b>	<b>295,336</b>	<b>242</b>	<b>11,813</b>	<b>998</b>	<b>334,648</b>

The depreciation charge of the Group's and Company's property, plant and equipment for 31 December 2011 amounts to LTL 17,449 thousand and LTL 17,317 thousand, respectively (2010: LTL 16,724 thousand and LTL 16,560 thousand respectively). The amounts of LTL 16,305 thousand and LTL 16,266 thousand (2010: LTL 15,849 thousand and LTL 15,778 thousand respectively) were included into operating expenses (under depreciation and amortisation and other expenses lines) in the Group's and the Company's statement of comprehensive income. The remaining amounts were included into other activity expenses.

Part of the property, plant and equipment of the Group and the Company with acquisition cost of LTL 91,102 thousand were fully depreciated as of 31 December 2011 (LTL 87,212 thousand as of 31 December 2010) but were still in active use.

As of 31 December 2011 and 2010 the major part of the Group's and Company's construction in progress consisted of heat supply networks reconstruction and repair works.

As of 31 December 2011 property, plant and equipment of the Group and the Company with the net book value of LTL 116,208 thousand (LTL 123,319 thousand as of 31 December 2010) was pledged to banks as a collateral for loans (Note 11).

During the year 2011 the amount of capitalized interest amounted to LTL 534 thousand (LTL 173 thousand in 2010). During the year 2011 the capitalization rate varied from 3.52% to 5.79% (in 2010 – from 3.5% to 5.65%).

As of 31 December 2011 the Group and the Company accounted for assets, not yet ready for use, amounting to LTL 1,025 thousand in the category Equipment and tools (LTL 661 thousand as of 31 December 2010).

## **5. Non-current accounts receivable**

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Long-term loans granted to the Company's employees	43	61	43	61
	43	61	43	61

Long-term loans granted to the employees of the Company for the period from 1997 to 2023 are non-interest bearing. These loans are accounted for at discounted value using 7.26% (in 2010 – 10.4%) interest rate. In 2011 effect of unwinding of discount amounted to LTL 13 thousand (2010: LTL 10 thousand). Discounting and unwinding of discount are included in write-offs and change in allowance for accounts receivable in the Group's and the Company's statement of comprehensive income.

As of 31 of December 2010 and 2011 the repayment term of non-current accounts receivable is not yet due and valuation allowance is not determined.

## **6. Other financial assets**

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
<i>Available-for-sale financial assets</i>				
Ordinary shares – unquoted	433	433	433	433
Impairment loss	(338)	(196)	(338)	(196)
Fair value of shares	95	237	95	237

The Management of the Group and the Company evaluated the financial condition of the entity that shares were acquired, and determined impairment loss. Impairment loss accounted in the Group's and the Company's profit or loss.

## 7. Inventories

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Technological fuel	3,430	3,409	3,430	3,409
Spare parts	1,351	1,211	1,351	1,211
Materials	1,175	861	1,051	735
	5,956	5,481	5,832	5,355
Less: impairment of realisable value at the end of the period	(1,210)	(211)	(1,210)	(211)
Carrying amount of inventories	4,746	5,270	4,622	5,144

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 December 2011 amounted to LTL 1,210 thousand (LTL 211 thousand as of 31 December 2010). Changes in the valuation allowance for inventories for the year 2011 and 2010 was listed into change in inventories allowance caption in the Group's and the Company's statement of comprehensive income.

## 8. Current accounts receivable

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Trade receivables, gross	102,309	114,131	102,222	113,875
Less: impairment of doubtful receivables	(43,315)	(41,886)	(43,315)	(41,886)
	58,994	72,245	58,907	71,989

Change in impairment of doubtful receivables in 2011 and 2010 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of comprehensive income.

Movements in the allowance for impairment of the Group's and the Company's receivables were as follows:

	<b>Impairment loss</b>
<b>Balance as of 31 December 2009</b>	<b>25,177</b>
Additional allowance formed	17,204
Write-off	(495)
<b>Balance as of 31 December 2010</b>	<b>41,886</b>
Additional allowance formed	2,213
Write-off	(784)
<b>Balance as of 31 December 2011</b>	<b>43,315</b>

In the year 2011 the Group and the Company wrote off LTL 784 thousand of bad debts (in the year 2010: LTL 495 thousand). In the year 2011 the Group and the Company also recovered LTL 17 thousand of doubtful receivables (in 2010 – LTL 32 thousand), which were written off in the previous periods.

The ageing analysis of the Group's net value of trade receivables as of 31 December 2011 and 31 December 2010 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
<b>2011</b>	45,908	10,462	1,241	1,072	311	-	58,994
<b>2010</b>	60,051	8,991	1,236	1,398	569	-	72,245

The ageing analysis of the Company's net value of trade receivables as of 31 December 2011 and 31 December 2010 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
<b>2011</b>	45,821	10,462	1,241	1,072	311	-	58,907
<b>2010</b>	59,795	8,991	1,236	1,398	569	-	71,989

Trade receivables are non-interest bearing and the payment terms are usually 30 days or agreed individually.

Other Group's and the Company's receivables consisted of:

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Taxes	2,660	2,737	2,660	2,737
Other receivables	3,423	3,579	3,561	3,754
Less: value impairment of doubtful receivables	(481)	(719)	(481)	(719)
	<b>5,602</b>	<b>5,597</b>	<b>5,740</b>	<b>5,772</b>

Movements in the allowance for impairment of the Group's and the Company's other receivables were as follows:

	Impairment loss
<b>Balance as of 31 December 2009</b>	<b>592</b>
Additional allowance formed	127
Write-off	-
<b>Balance as of 31 December 2010</b>	<b>719</b>
Additional allowance formed	6
Write-off	(244)
<b>Balance as of 31 December 2011</b>	<b>481</b>

As of 31 December 2011 and 31 December 2010 the major part of the Group's and the Company's other receivables consisted of compensations from municipalities for low income families, receivables from sold inventories (metals, heating equipment) and services supplied (transportation and permanent maintenance of collectors).

The ageing analysis of the Group's net value of other receivables (excluding taxes) as of 31 December 2011 and 31 December 2010 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
<b>2011</b>	2,765	56	38	20	2	61	2,942
<b>2010</b>	1,850	709	273	20	8	-	2,860

The ageing analysis of the Company's net value of other receivables (excluding taxes) as of 31 December 2011 and 31 December 2010 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
<b>2011</b>	2,903	56	38	20	2	61	3,080
<b>2010</b>	2,025	709	273	20	8	-	3,035

The Group's and the Company's other receivables are non-interest bearing and the payment terms are usually 30 - 45.

According to the management opinion, there are no indications as of the reporting date that the debtors will not meet their payment obligations regarding trade receivables and other receivables that are neither impaired nor past due.

## 9. Cash and cash equivalents

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Cash in transit	3,684	1,951	3,684	1,951
Cash at bank	2,231	1,592	2,195	1,542
Cash on hand	21	31	20	31
	<u>5,936</u>	<u>3,574</u>	<u>5,899</u>	<u>3,524</u>

The Group's and the Company's accounts in national currency in banks amounting to LTL 1,433 thousand as of 31 December 2011 (31 December 2010 – LTL 951 thousand) are pledged as collateral for the loans (Note 11).

## 10. Reserves

### Legal and other reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit calculated in accordance with IFRS are compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends but can be used to cover any future losses.

On 4 March 2010, based on the decision of the shareholders the Subsidiary transferred an amount of LTL 233 thousand from legal reserve to cover losses of 2009.

On 13 May 2010 the company transferred LTL 448 thousand from retained earnings to legal reserve by the decision of shareholders.

In 2010 Group's net transfers from retained earnings to legal reserve amount to LTL 215 thousand.

On 29 April 2011 the Company transferred LTL 187 thousand from retained earnings to legal reserve and LTL 3,468 thousand to other reserves by the decision of shareholders. Reserve for investments was formed.

## 11. Borrowings

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
<b>Non-current borrowings</b>				
Non-current borrowings	32,169	31,811	32,169	31,811
<b>Current borrowings</b>				
Current portion of non-current borrowings (except leasing, Note 12)	11,295	13,703	11,295	13,703
Current borrowings (including credit line)	7,765	8,808	7,765	8,808
Other interest bearing liabilities	-	6,215	-	6,215
	<u>19,060</u>	<u>28,726</u>	<u>19,060</u>	<u>28,726</u>
	<u>51,229</u>	<u>60,537</u>	<u>51,229</u>	<u>60,537</u>

Terms of repayment of non-current borrowings are as follows (all loans are with variable interest rate):

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
2011	-	13,703	-	13,703
2012	11,295	11,174	11,295	11,174
2013	8,076	7,590	8,076	7,590
2014	8,076	7,093	8,076	7,093
2015	5,221	3,471	5,221	3,471
2016	3,313	1,757	3,313	1,757
2017	1,351	726	1,351	726
2018	871	-	871	-
2019	414	-	414	-
2020	323	-	323	-
2021	323	-	323	-
2022	323	-	323	-
2023	323	-	323	-
2024	323	-	323	-
2025	324	-	324	-
2026	323	-	323	-
2027	323	-	323	-
2028	323	-	323	-
2029	323	-	323	-
2030	323	-	323	-
2031	323	-	323	-
2032	323	-	323	-
2033	323	-	323	-
2034	324	-	324	-
	<b>43,464</b>	<b>45,514</b>	<b>43,464</b>	<b>45,514</b>

Weighted average of interest rates (in %) of borrowings outstanding at the year-end were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Current borrowings	1.73	3.3	1.73	3.3
Non-current borrowings	3.73	3.3	3.73	3.3

Borrowings at the end of the year in national and foreign currencies were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
<b>Currency of the loan:</b>				
EUR	39,728	50,485	39,728	50,485
LTL	11,501	10,052	11,501	10,052
	<b>51,229</b>	<b>60,537</b>	<b>51,229</b>	<b>60,537</b>

On 1 August 2005 the Group and the Company signed a long-term loan agreement with „Swedbank, AB for the amount of LTL 5,000 thousand. The maturity date of the last portion of the loan is 1 August 2012. As of 31 December 2011 the outstanding balance of the loan amounted to LTL 426 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month VILIBOR plus 0.77% annual interest rate.

On 23 August 2005 the Group and the Company signed a long-term loan agreement with AB SEB Bank for the amount of EUR 8,776 thousand (the equivalent of LTL 30,300 thousand). The maturity date of the last portion of the loan is 31 December 2014. The outstanding balance of the loan amounted to EUR 2,172 thousand (the equivalent of LTL 7,500 thousand) as of 31 December 2011, of which LTL 2,500 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 1.9% annual interest rate. The interest swap agreement was concluded for this loan by setting a fixed interest rate for a floating interest rate, as further disclosed in Note 15.

On 1 December 2006 the Group and the Company signed a long-term loan agreement with Nordea Bank Finland Plc. Lithuanian branch for the amount of LTL 2,090 thousand. On 18 April 2007 the loan amount increased up to LTL 6,090 thousand. The maturity date of the last portion of the loan is 31 December 2015. As of 31 December 2011 the outstanding balance of the loan amounted to LTL 3,310 thousand, of which LTL 839 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 3-month VILIBOR plus 0.45% annual interest rate.

On 21 December 2006 the Group and the Company signed a long-term loan agreement with AB SEB Bank for the amount of EUR 2,059 thousand (the equivalent of LTL 7,108 thousand). The maturity date of the last portion of the loan is 30 November 2016. As of 31 December 2011 the outstanding balance of the loan amounted to EUR 487 thousand (the equivalent of LTL 1,681 thousand), of which LTL 395 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 0.4% annual interest rate.

On 14 November 2007 the Group and the Company signed a long-term loan agreement with AB DnB NORD Bank for the amount of EUR 576 thousand (the equivalent of LTL 1,989 thousand). The maturity date of the last portion of the loan is 31 December 2016. As of 31 December 2011 the outstanding balance of the loan amounted to EUR 360 thousand (the equivalent of LTL 1,243 thousand), of which LTL 248 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 12-month EUR LIBOR plus 0.59% annual interest rate.

On 31 July 2008 the Group and the Company signed a long-term investment credit agreement with Danske Bank A/S Lithuania Branch for the amount of EUR 984 thousand (the equivalent of LTL 3,398 thousand). The maturity date of the last portion of the loan is 2018. As of 31 December 2011 the outstanding balance of the investment credit amounted to EUR 543 thousand (the equivalent of LTL 1,875 thousand), of which LTL 350 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 3-month EURIBOR plus 0.385% annual interest rate.

On 31 July 2008 the Group and the Company signed a long-term investment credit agreement with Danske Bank A/S Lithuania Branch for the amount of EUR 1,158 thousand (the equivalent of LTL 4,000 thousand). The maturity date of the last portion of the loan is 31 December 2017. As of 31 December 2011 the outstanding balance of the investment credit amounted to EUR 914 thousand (the equivalent of LTL 3,155 thousand), of which LTL 600 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 3-month EURIBOR plus 0.7% annual interest rate.

On 22 September 2008 the Group and the Company signed a long-term loan agreement with AB SEB Bank for the amount of EUR 3,333 thousand (the equivalent of LTL 11,508 thousand). The maturity date of the last portion of the loan is 31 December 2011. As of 17 September, 2010 the outstanding balance of the loan was refinanced through Lithuanian branch of Nordea Bank Finland Plc. The loan was bear 1-month EUR LIBOR plus 0.7% annual interest rate.



On 25 September 2009 the Group and the Company signed a loan agreement with „Swedbank, AB for the amount of EUR 2,896 thousand (the equivalent of LTL 10,000 thousand), with the maturity date of 25 September 2012. As of 31 December 2011 the Group and the Company's balance of used loan was EUR 915 thousand (the equivalent of LTL 3,158 thousand) which is accounted as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month EURIBOR plus 3.85% annual interest rate.

On 2 December 2009 the Group and the Company signed a loan agreement with „Swedbank, AB for the amount of EUR 3,815 thousand (the equivalent of LTL 13,171 thousand), with the maturity date of the last portion of the loan on 2 December 2016. As of 31 December 2011 the balance of used loan was EUR 1,634 thousand (the equivalent of LTL 5,642 thousand), of which LTL 1,203 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month EURIBOR plus 4.5% annual interest rate.

On 9 April 2010 the Group and the Company signed a credit agreement with the Lithuanian Ministry of Finance regarding the loan of EUR 2,410 thousand (the equivalent of LTL 8,323 thousand). The term of repayment of the last part of the loan is 15 March 2034. As of 31 December 2011 the balance of used loan was EUR 1,778 thousand (the equivalent of LTL 6,139 thousand), which was accounted for within long term borrowings in the financial statements of the Group and the Company. The loan bears 3.948% annual interest rate until 31 March 2019.

On 21 June 2010 the Group and the Company signed a credit agreement with „Swedbank, AB regarding the loan of EUR 649 thousand (the equivalent of LTL 2,240 thousand). The term of repayment of the last part of the loan is 21 June 2017. As of 31 December 2011 the outstanding balance of the credit amounted to EUR 407 thousand (the equivalent of LTL 1,407 thousand), of which 404 thousand LTL is accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month EURIBOR plus 4% annual interest rate.

On 17 September, 2010 the Group and the Company signed a long-term credit agreement with Nordea Bank Finland Plc Lithuanian Branch for the amount of EUR 1,625 thousand (the equivalent of LTL 5,611 thousand). The maturity date of the last portion of the loan is 31 May, 2016. As of 31 December 2011 the outstanding balance of the credit amounted to EUR 1,265 thousand (the equivalent of LTL 4,368 thousand), of which LTL 989 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 1-month EUR LIBOR plus 0.7% annual interest rate.

On 8 July 2004, the Group and the Company signed an overdraft agreement with AB DnB NORD Bank for the amount of LTL 18,000 thousand and for the term expiring on 31 May 2008. On 27 May 2008, the limit of the overdraft line of credit was reduced to the amount of LTL 10,000 thousand and the repayment term was extended until 31 May 2009. On 29 May 2009, the validity term of the agreement was extended until 29 May 2010 by changing the overdraft limit to EUR 2,896 thousand (LTL 9,999 thousand). On 31 May 2010 the validity term of the agreement was extended until 23 June 2010 and on 22 June 2010 the validity term of the agreement was extended until 30 May 2011. The overdraft bears 1-month EURIBOR plus 3% annual interest rate.

On 23 August 2010 the Group and the Company signed a credit line agreement with AB SEB Bank for the amount of LTL 10,000 thousand, with the maturity date of 23 August 2011. The credit line was bears 1-month VILIBOR plus 1.49% annual interest rate.

On 19 October 2010 the Company signed a trilateral agreement with AB Ūkio bankas for the factoring of UAB Kauno Termofikacijos Elektrinė on the deferral of the payment for heat energy for an additional term of 30 days thus amending the original term established in the Heat energy purchase and sale agreement as described in Note 1. The agreement of factoring expires as of 31 July, 2011.

On 9 December, 2010 the Company signed an agreement with AB DnB NORD bank for the factoring of heat selling to the institutions financed from Kaunas municipality. The limit of the factoring is LTL 8,440 thousand. The term of factoring is 9 December 2011. Annual interest of 3-months VILIBOR plus 2.85% is payable on the limit used.

On 26 October 2010 the Group and the Company signed a credit agreement with the Lithuanian Ministry of Finance regarding the loan of EUR 807 thousand (the equivalent of LTL 2,788 thousand). The term of repayment of the last part of the loan is 15 March 2034. The loan is still not used as of date of these statements. The loan bears 3.948% annual interest rate until 31 March 2019.

On 1 April 2011 the Group and the Company signed a credit agreement with Nordea Bank Finland Plc Lithuanian Branch regarding the loan of EUR 921 thousand (the equivalent of LTL 3,180 thousand). The term of repayment of the last part of the loan is 30 April 2019. The loan is still not used as of date of these statements. The loan bears EURIBOR + 2.1% annual interest rate.

On 7 June 2011, the Group and the Company signed an overdraft agreement with Nordea Bank Finland Plc Lithuanian Branch for the amount of EUR 2.896 thousand (the equivalent of LTL 10.000 thousand) for the term expiring on 31 May 2012. As of 31 December 2011 the limit of overdraft is not used. The overdraft bears EONIA + 0.92 % annual interest rate.

On 11 February 2011 the Group and the Company signed a credit agreement with the AB SEB bank regarding the loan of EUR 1.031 thousand (the equivalent of LTL 3,560 thousand). The maturity date of the last part of the loan is 10 February 2019. As of 31 December 2011 the balance of used loan was EUR 1,031 thousand (the equivalent of LTL 3,560 thousand), of which LTL 183 thousand are accounted as the current part of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 2.7% annual interest rate.

On 23 August 2011 the Group and the Company signed a credit line agreement with AB SEB Bank for the amount of LTL 10,000 thousand, with the maturity date of 22 August 2012. As of 31 December 2011 the Group and the Company balances of used credit line was LTL 7,765 thousand. The credit line bears 1-month VILIBOR plus 0.63% annual interest rate.

On 2 September 2011 the Group and the Company signed a credit agreement with the Lithuanian Ministry of Finance regarding the loan of EUR 1,672 thousand (the equivalent of LTL 5,773 thousand). The term of repayment of the last part of the loan is 1 September 2034. The loan is still not used as of date of these statements. The loan bears 4.123% annual interest rate until 10 September 2019.

On 13 October, 2011 the Group and the Company signed a long-term credit agreement with AB SEB bank for the amount of EUR 290 thousand (the equivalent of LTL 1,000 thousand). The loan is still not used as of date of these statements. The loan bears 1-month EURIBOR plus 1.9% annual interest rate.

The property, plant and equipment (Note 4) and accounts in banks (Note 9) of the Group and the Company were pledged as collateral for the borrowings.

## **12. Finance lease obligations**

The assets leased by the Group under finance lease contracts mainly consist of vehicles. The terms of financial lease are from 2 to 5 years. As of 31 December 2011 the interest rate on the financial lease obligations is fixed and variable. Fixed interest rate is equal to 3.99%. The variable interest rate varies depending on 6-month EURIBOR plus 1.5%.

All finance lease agreements are in EUR.

Future minimal lease payments were:

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Within one year	10	35	-	-
From one to five years	-	10	-	-
Total financial lease obligations	10	45	-	-
Interest	-	(1)	-	-
<b>Present value of financial lease obligations</b>	<b>10</b>	<b>44</b>	<b>-</b>	<b>-</b>
Financial lease obligations are accounted for as:				
- current	10	34	-	-
- non-current	-	10	-	-

### 13. Grants (deferred income)

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
<b>Balance at the beginning of the reporting period</b>	<b>16,790</b>	<b>11,832</b>	<b>16,790</b>	<b>11,832</b>
Received during the year	6,317	5,590	6,317	5,590
Amortisation	(896)	(632)	(896)	(632)
<b>Balance at the end of the reporting period</b>	<b>22,211</b>	<b>16,790</b>	<b>22,211</b>	<b>16,790</b>

In 2008 the group and the Company received the heating network located in Žiemgalių Str. and Raudondvario Rd. for free, fair value of which at the date of the transfer amounted to LTL 149 thousand. As well, in 2008 the Group and the Company received telecommunication equipment, the fair value of which at the date of the transfer amounted to LTL 140 thousand. On 10 October 2008 the branch of the Company Jurbarko Šilumos Tinklai received LTL 600 thousand subsidies for the change of the boiler burned by fuel oil to the boiler burned by gas from VŠĮ Lietuvos Aplinkos Apsaugos Investicijų Fondas (LEIF).

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Renovation of Centralised Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at Krėvės Ave. 82 A.118H, Kaunas) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 6,000 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 5,843 thousand by 31 December 2011.

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Modernisation of Kaunas City Integrated Network Centre Main (4T) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 5,990 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 4,414 thousand by 31 December 2011.

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius–Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,333 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 1,725 thousand by 31 December 2011.

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after terms and conditions of the agreement are fulfilled. LTL 582 thousand which were accounted for under other accounts receivable line in the Group's and the Company's Statements of Financial position as of 31 December 2010, were paid out in 2011. As of 31 December 2011 financing in amount of LTL 1,426 thousand has been received.

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project The modernisation of Žaliakalnis main of Kaunas integrated network (4Ž) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,788 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2011 financing in amount of LTL 516 thousand has been received.

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project The modernisation of Dainava area main of Kaunas integrated network (1T) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,560 thousand after terms and conditions of the agreement are fulfilled.

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project The modernisation of Aukštieji Šančiai area main of Kaunas integrated network (2Ž) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,618 thousand after terms and conditions of the agreement are fulfilled.

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project The modernisation of Viliampolė area heating network of Kaunas integrated network (9K) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 595 thousand after terms and conditions of the agreement are fulfilled.

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project The modernisation of Pramonė area main of Kaunas integrated network (1Ž) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,000 thousand after terms and conditions of the agreement are fulfilled.

In 2011 the Group and the Company received computer equipment, the fair value of which at the date of the transfer amounted to LTL 142 thousand.

#### **14. Employee benefit liability**

According to Lithuanian legislation and the conditions of the collective employment agreement, each employee of the Group and the Company is entitled to 1 - 6 months salary payment when leaving the job at or after the start of the pension period.

The Group's and the Company's total employee benefit liability is stated below:

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Employee benefit liability at the beginning of the year	1,830	2,476	1,830	2,476
Paid	(143)	(284)	(143)	(284)
Formed	719	(362)	719	(362)
<b>Employee benefit liability at the end of the year</b>	<b>2,406</b>	<b>1,830</b>	<b>2,406</b>	<b>1,830</b>
Non-current employee benefit liability	1,671	1,593	1,671	1,593
Current employee benefit liability	735	237	735	237

During the year, ended 31 December 2011, the total amount of the benefit paid to the employees by the Group and the Company amounted to LTL 143 thousand (LTL 284 thousand for the year, ended 31 December 2010) and are included in the caption of salaries and social security expenses in the Group's and the Company's statement of comprehensive income.

The principal assumptions used in determining pension benefit obligation for the Group's and the Company's plan is shown below:

	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Discount rate	7.0%	7.0%
Employee turnover rate	18.9%	18.9%
Expected average annual salary increases	3.0%	3.0%

## **15. Derivative financial instruments**

On 9 April 2009, the Group and the Company concluded an interest rate swap agreement. For the period from 24 August 2009 to 22 August 2014 the Group and the Company set a fixed interest rate at 4.15% for a floating interest rate at 6-month EUR LIBOR. The nominal amount of the transaction was EUR 2,172 thousand (the equivalent of LTL 7,500 thousand) as at 31 December 2011 (EUR 2,896 thousand (the equivalent of LTL 10,000 thousand) as at 31 December 2010). Market value of swap agreement as of 31 December 2011 amounted to LTL 333 thousand (LTL 479 thousand as of 31 December 2010). This transaction does not have material impact on the future cash flows of the Group and the Company.

## **16. Sales income**

The Group's and the Company's activities are heat energy supply, electricity production, maintenance of heating and hot water supply systems, electricity production and other activities. In the year 2010 a part of inhabitants chose the Company as the hot water supplier. Those activities are inter-related, consequently for management purposes the Group's and the Company's activities are organised as one main segment – heat energy supply. The Group's and the Company's sales by activities are stated below:

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Heat energy	302,842	302,546	302,893	302,602
Maintenance of the heating and hot water supply systems of the buildings	1,289	2,037	515	566
Hot water supply	3,725	1,485	3,725	1,485
Maintenance of manifolds	866	439	866	439
Electric energy	568	349	568	349
Maintenance of hot water meters	55	-	55	-
	<b>309,345</b>	<b>306,856</b>	<b>308,622</b>	<b>305,441</b>

## 17. Other expenses

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Cash collection expenses	2,397	2,374	2,319	2,233
Equipment verification and inspection	3,084	2,428	3,073	2,408
Debts collection expenses	1,171	853	1,171	853
Consulting expenses	760	320	754	316
Customer bills issue and delivery expenses	476	544	476	544
Communication expenses	290	415	267	387
Employees related expenses	296	292	289	278
Insurance	222	230	215	223
IT maintenance and related services	183	154	166	143
Membership fee	275	215	275	215
Transport expenses	169	148	151	131
Advertising expenses	143	133	143	132
Audit expenses	103	73	99	64
Stationery and post expenses	36	43	36	42
Rent of equipment and machinery	37	21	14	5
Other expenses	1,019	1,355	1,093	1,386
	<u>10,661</u>	<u>9,598</u>	<u>10,541</u>	<u>9,360</u>

## 18. Other activities income and expenses

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Income from other operating activities</b>				
Miscellaneous services	1,703	1,785	1,221	1,530
Materials sold	511	377	509	377
Gain from sale of non-current assets	6	6	6	6
Other	123	34	110	22
	<u>2,343</u>	<u>2,202</u>	<u>1,846</u>	<u>1,935</u>
<b>Expenses from other operating activities</b>				
Cost of miscellaneous services	(1,217)	(1,180)	(564)	(645)
Cost of materials sold	(10)	(29)	(10)	(29)
Write off of non-current assets	(52)	(119)	(52)	(119)
Loss from sale of non-current assets	(17)	-	(17)	-
Other	(38)	(21)	(34)	(15)
	<u>(1,334)</u>	<u>(1,349)</u>	<u>(677)</u>	<u>(808)</u>

## 19. Finance income

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Interest from late payment of accounts receivable	2,409	1,704	2,409	1,704
Fines	5,420		5,420	
Change in fair value of derivative financial instruments	146	308	146	308
Bank interest	22	2	22	2
Other	4	10	4	10
	<u>8,001</u>	<u>2,024</u>	<u>8,001</u>	<u>2,024</u>

The receipt of fines amounting to LTL 5,420 thousand is further described in Note 24.

## 20. Finance costs

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Interest on bank loans and overdrafts	(1,467)	(2,177)	(1,466)	(2,175)
Impairment loss of non-current financial assets	(142)	(196)	(359)	(691)
Penalties	(44)	(30)	(44)	(30)
Other	-	(2)	-	(1)
	<u>(1,653)</u>	<u>(2,405)</u>	<u>(1,869)</u>	<u>(2,897)</u>

## 21. Income tax

The recorded income tax for the year can be reconciled with the theoretical calculated income tax, which is computed by applying the standard income tax rate to profit before taxes as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Profit before tax	14,760	7,688	14,662	7,258
Income tax (expenses) calculated at statutory rate	(2,214)	(1,153)	(2,199)	(1,089)
Change in deferred income tax due to change in tax rate	-	-	-	-
Permanent differences and impact of valuation allowance of deferred income tax asset	994	(2,368)	979	(2,432)
Income tax (expenses) reported in the statement of comprehensive income	<u>(1,220)</u>	<u>(3,521)</u>	<u>(1,220)</u>	<u>(3,521)</u>
<b>Effective rate of income tax (%)</b>	<b>8,27</b>	<b>45,80</b>	<b>8,32</b>	<b>48,51</b>

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Components of the income tax expense</b>				
Current income tax for the reporting year	-	-	-	-
Deferred income tax (expenses)	<u>(1,220)</u>	<u>(3,521)</u>	<u>(1,220)</u>	<u>(3,521)</u>
Income tax (expenses) recorded in the statement of comprehensive income	<u>(1,220)</u>	<u>(3,521)</u>	<u>(1,220)</u>	<u>(3,521)</u>

As of 31 of December 2011 and 2010 deferred income tax asset and liability were accounted for by applying 15% rate (refer to Note 2.20.). All changes in deferred tax are reported in the statement of comprehensive income.

Deferred income tax consists of:

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Net deferred income tax asset</b>				
Tax loss carry forward	1,956	679	1,956	679
Accruals	566	369	566	369
The change in value of financial assets	51	29	51	29
Deferred income tax asset	<u>2,573</u>	<u>1,077</u>	<u>2,573</u>	<u>1,077</u>
<b>Deferred income tax liability</b>				
Differences of depreciation	(9,101)	(6,334)	(9,101)	(6,334)
Investment incentive	(243)	(294)	(243)	(294)
Revaluation of the assets transferred to subsidiary	-	-	(669)	(669)
Deferred income tax liabilities	<u>(9,344)</u>	<u>(6,628)</u>	<u>(10,013)</u>	<u>(7,297)</u>
<b>Deferred income tax, net</b>	<b><u>(6,771)</u></b>	<b><u>(5,551)</u></b>	<b><u>(7,440)</u></b>	<b><u>(6,220)</u></b>

Deferred income tax assets on tax losses carry forward have been recognised in the balance sheet in full amount as the Group's and the Company's management believes it will be realised in the foreseeable future, based on taxable profit forecasts.

At 31 December unrecognized deferred tax assets of the Group and the Company consisted of:

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Allowance for trade receivables	6,497	6,395	6,497	6,395
Property, plant and equipment depreciation	81	72	81	72
Allowance for other accounts receivable	72	108	72	108
Change in fair value of derivative financial instruments	-	43	-	43
Impairment for the investment into subsidiary	-	-	107	74
<b>Unrecognized deferred tax asset, net</b>	<b><u>6,650</u></b>	<b><u>6,618</u></b>	<b><u>6,757</u></b>	<b><u>6,692</u></b>

## 22. Basic and diluted earnings (loss) per share

Calculations of the basic and diluted earnings per share of the Group are presented below:

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net profit	13,540	4,167	13,442	3,737
Number of shares (thousand), opening balance	42,732	42,618	42,732	42,618
Number of shares (thousand), closing balance	42,732	42,732	42,732	42,732
Average number of shares (thousand)	42,732	42,706	42,732	42,706
Basic and diluted earnings per share (LTL)	0,32	0,10	0,31	0,09



## 23. Financial assets and liabilities and risk management

### Credit risk

The Group and the Company do not have any credit concentration risk because they work with a large number of customers.

### Customers number

	<b>Group</b>		<b>Company</b>	
	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>
	<b>December 2011</b>	<b>December 2010</b>	<b>December 2011</b>	<b>December 2010</b>
Individuals	115,012	115,093	114,807	114,929
Other legal entities	2,153	2,130	2,063	2,028
Legal entities financed from municipalities' and state budget	374	362	339	325
	<b>117,539</b>	<b>117,585</b>	<b>117,209</b>	<b>117,282</b>

Trade receivables of the Group and the Company by the customer groups:

	<b>Group</b>		<b>Company</b>	
	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>
	<b>December 2011</b>	<b>December 2010</b>	<b>December 2011</b>	<b>December 2010</b>
Individuals	41,803	51,250	41,799	51,247
Other legal entities	8,278	9,855	8,262	9,681
Legal entities financed from municipalities' and state budget	8,913	11,140	8,846	11,061
	<b>58,994</b>	<b>72,245</b>	<b>58,907</b>	<b>71,989</b>

Considering trade and other accounts receivables, the terms of which is still not expired and their impairment as of date of financial statements is not determined, according to Management opinion there is no indications that debtors will not fulfil their payment liabilities, because a balance of receivables are controlled constantly. The Group and the Company considers that maximum risk is equal to the sum of receivables from buyers and other receivables, less recognized impairment losses as of the balance sheet date (note 8).

Cash and cash equivalents in banks, which were evaluated in accordance with long-term borrowing ratings\*):

	<b>Group</b>		<b>Company</b>	
	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>
	<b>December 2011</b>	<b>December 2010</b>	<b>December 2011</b>	<b>December 2010</b>
A	869	1,420	833	1,370
A+	1,264	100	1,264	100
AA-	30	3	30	3
B+	-	7	-	7
Bank with no rating attributed	68	62	68	62
	<b>2,231</b>	<b>1,592</b>	<b>2,195</b>	<b>1,542</b>

\*- external credit ratings set by *Fitch Ratings* agency.

The Group and the Company do not guarantee obligations of the other parties in 2011 and in 2010.

With respect to credit risk arising from the other financial assets of the Group and the Company, which comprise cash and cash equivalents and available-for-sale financial investments, the Group's and the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

#### Interest rate risk

All of the Group's and the Company's borrowings are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2011 and 2010 to manage variable rate risk the Company has entered into interest rate swap agreements, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts as described in Note 15, calculated by the reference to an agreed upon notional principal amount.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates (increase and decrease in basis points was determined based on Lithuanian economic environment and the Group's and the Company's historical experience), with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's and the Company's equity, other than current year profit impact.

	<u>Increase/decrease in basis points</u>	<u>Effect on profit before tax</u>
<b>2011</b>		
LTL	+200	(230)
LTL	-200	230
EUR	+50	(168)
EUR	-50	168
<b>2010</b>		
LTL	+200	(201)
LTL	-200	201
EUR	+50	(198)
EUR	-50	198

#### Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as of 31 December 2011 were 0.96 and 0.90 respectively (0.93 and 0.88 as of 31 December 2010). The Company's liquidity and quick ratios as of 31 December 2011 were 0.97 and 0.91, respectively (0.93 and 0.88 as of 31 December 2010).

To solve all liquidity issues the Group and the Company implement the following action plan:

- The price effective from 1 June 2009 include costs for fuel and heat energy purchased that were actually incurred during the previous period but not yet covered. Since 1 October 2009, the heat price for consumers is calculated using two components. A constant component of the heat price remains unchanged for the period during which the recalculated heat price is valid. Only a variable component changes depending on changes in fuel prices thus allowing the Company to reduce possible losses in case of rise in fuel prices.
- Since the year 2009 the Company attempts to receive part of investments funds from the EU Structural Funds (50% of the cost of the project, but not more than LTL 6 million). The Company has submitted 9 projects. Support agreements for all of them has been signed as it is described in notes 13;
- Non-priority investments are suspended;
- Considering the current situation the Group and the Company started reduce expenses: the Public Institution Organizacijų vertinimo agentūra (Agency of Assessment of Organizations) accomplished an assessment of the Company's management administration and activity.
- the plan of reducing production and supply losses is being currently implemented;
- The analysis of cash flows are done regularly, fulfilment of finance needs is planned and organized.

Unsecured bank overdraft and bank loan facilities:

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Amount used	7,765	8,808	7,765	8,808
Amount unused	12,235	11,191	12,235	11,191
	<b>20,000</b>	<b>19,999</b>	<b>20,000</b>	<b>19,999</b>

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2011 and as of 31 December 2010 based on contractual undiscounted payments (scheduled payments including interest).

	<b>Less than 3 months</b>	<b>4 to 12 months</b>	<b>2 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Interest bearing loans and borrowings	2,554	18,107	27,468	9,554	57,683
Trade payables	54,192	698	37	-	54,927
<b>Balance as of 31 December 2011</b>	<b>56,746</b>	<b>18,805</b>	<b>27,505</b>	<b>9,554</b>	<b>112,610</b>

	<b>Less than 3 months</b>	<b>4 to 12 months</b>	<b>2 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Interest bearing loans and borrowings	11,054	19,196	31,073	2,525	63,848
Trade payables	60,524	454	3	-	60,981
<b>Balance as of 31 December 2010</b>	<b>71,578</b>	<b>19,650</b>	<b>31,076</b>	<b>2,525</b>	<b>124,829</b>

The table below summarises the maturity profile of the Company's financial liabilities. As of 31 December 2011 and 2010 based on contractual undiscounted payments (scheduled payments including interest).

	<b>Less than 3 months</b>	<b>4 to 12 months</b>	<b>2 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Interest bearing loans and borrowings	2,549	18,102	27,468	9,554	57,673
Trade payables	54,265	698	37	-	55,000
<b>Balance as of 31 December 2011</b>	<b>56,814</b>	<b>18,800</b>	<b>27,505</b>	<b>9,554</b>	<b>112,673</b>

	<b>Less than 3 months</b>	<b>4 to 12 months</b>	<b>2 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Interest bearing loans and borrowings	11,045	19,170	31,063	2,525	63,803
Trade payables	60,520	454	3	-	60,977
<b>Balance as of 31 December 2010</b>	<b>71,565</b>	<b>19,624</b>	<b>31,066</b>	<b>2,525</b>	<b>124,780</b>

Trade payables

Trade payables of the Group and the Company by supplier groups:

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2011</b>
For heat purchased	37,885	45,789	37,885	45,789
Contractors	11,035	10,099	11,035	10,099
Other suppliers	6,007	5,093	6,080	5,089
	<b>54,927</b>	<b>60,981</b>	<b>55,000</b>	<b>60,977</b>

30 day settlement period is set with KTE for purchased heat energy, 90-180 day settlement period – with contractors, 5-30 day settlement period – with other suppliers.

As of 31 December 2011 and 2010 neither the Group nor the Company had overdue trade payables.

#### Foreign currency risk

All sales and purchases transactions as well as the financial debt portfolio of the Group and the Company are denominated in LTL and EUR. As litas is pledged to euro, therefore, material foreign currency risk is not incurred

#### Fair value of financial instruments

The Company's principal financial instruments accounted for at amortised cost are trade and other current and non-current receivables, trade and other payables, long-term and short-term borrowings. The net book value of these amounts is similar to their fair value.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

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

Categories of financial instruments:

Financial assets:

	<b>As of 31 December 2011</b>	<b>Group As of 31 December 2010</b>	<b>As of 31 December 2009</b>	<b>As of 31 December 2011</b>	<b>Company As of 31 December 2010</b>	<b>As of 31 December 2009</b>
Cash and bank balances	5,936	3,574	3,131	5,899	3,524	3,094
Loans and receivables	64,639	77,903	64,250	64,690	77,822	64,269
Available-for-sale financial assets	95	237	433	5,436	5,795	6,486
	<b>70,670</b>	<b>81,714</b>	<b>67,814</b>	<b>76,025</b>	<b>87,141</b>	<b>73,849</b>

Financial liabilities:

	<b>As of 31 December 2011</b>	<b>Group As of 31 December 2010</b>	<b>As of 31 December 2009</b>	<b>As of 31 December 2011</b>	<b>Company As of 31 December 2010</b>	<b>As of 31 December 2009</b>
Carried at fair value through profit or loss (FVTPL)	333	479	787	333	479	787
Carried at amortised cost	106,203	121,565	101,342	106,266	121,517	101,274
	<b>106,536</b>	<b>122,044</b>	<b>102,129</b>	<b>106,599</b>	<b>121,996</b>	<b>102,061</b>

The carrying amounts of financial assets and financial liabilities approximate their fair values.

### Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2011 and 2010, except for increase in share capital paid by contributions in kind as disclosed in Note 1.

The Group and the Company is obliged to upkeep its equity of not less than 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania. The Group and the Company complies with equity requirements imposed by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements on the Group and the Company.

The Group and the Company monitor capital using debt to equity ratio. Capital includes ordinary shares, reserves, retained earnings attributable to the equity holders of the parent. There is no specific debt to equity ratio target set out by the Group's and the Company's management, however current ratios presented below are treated as sustainable performance indicators:

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Non-current liabilities (including deferred tax and grants (deferred income))	63,014	56,165	63,683	56,824
Current liabilities	78,559	93,455	78,359	93,132
<b>Liabilities</b>	<b>141,573</b>	<b>149,620</b>	<b>142,042</b>	<b>149,956</b>
<b>Equity</b>	<b>270,682</b>	<b>257,142</b>	<b>274,027</b>	<b>260,585</b>
<b>Debt* to equity ratio (%)</b>	<b>52,30</b>	<b>58,19</b>	<b>51,84</b>	<b>57,55</b>

\* Debt contains all non-current (including deferred income tax liability and grants (deferred revenues)) and current liabilities.

### Market risk

External risk factors that make influence the Group's and the Company's main activity:

- Economical crisis,
- Increase of fuel prices,
- Unfavourable law and legal acts of Government and other institutions, decisions of local municipality,
- The politics of selling production prices,
- Inflation and common economical recession that reduces the income of heat consumers,
- The cycle of activity,
- Environmental requirements.

More detailed information about risk factors is presented in Annual report.

## 24. Commitments and contingencies

### Litigations

On 30 June 2003 the Investment agreement between the Company and KTE was signed. As KTE fails to fulfil obligations assumed with regard to the amount of investments in due time and according to this agreement KTE is committed to pay to the Company a fine of LTL 17,7 million of the amount of unimplemented investments, the parties initiated negotiations with the purpose of amending the investment agreement and the term of investments. As at 31 of December, 2009 an agreement acceptable to both parties regarding the amendment of the investment agreement was not reached. The dispute over the amount of LTL 17.7 million is being solved in the Arbitration Court at the Association International Chamber of Commerce – Lithuania. On 17 February 2010 Vilnius Court of Commercial Arbitration investigated the civil case regarding the fulfilment of the investment agreement between the Company and UAB Kauno Termofikacijos Elektrinė (hereinafter - KTE) and passed the ruling to award a fine of LTL 5,420 thousand in favour of the Company. KTE has placed a complaint to Lithuanian Court of Appeal regarding this decision. The Court of Appeal denied this appeal by its ruling from 19 October 2010 and has left the ruling of the Court of Commercial Arbitration unchanged. On 8 of November, 2010 KTE has applied a cassation complaint to the Lithuanian Supreme Court regarding a repeal of rulings of the Commercial Arbitration court and of the Court of appeal. On 14 of March 2011 the Lithuanian Supreme Court has dismissed a cassation complaint of KTE by its final decision and has left unchanged the decision of Vilnius Commercial Arbitration Court from 17 of February 2010 and the decision of Lithuanian Court of Appeal from 19 of October 2010. The penalty and interest received has been accounted in financial statements of the Group and the Company as financial activity income and were offset against trade payables to KTE.

On 3 of November, 2010 the Company placed a second claim to Vilnius Commercial Arbitration Court (hereafter – VCAC) regarding additional forfeit in amount LTL 12,352 thousand from defendant KTE due to the improper fulfilment of the Investments agreement. On 18 of February, 2011 a preliminary session of VCAC took place, and on 17 of June, 2011 a need of additional explanations came up during session of the court where the case has been started to investigate essentially. The explanations due to the sameness of the second claim to the first one from the year 2009 which has been placed due to the forfeit in already closed case of VCAC were needed. Additional written explanations were placed to the court on 1 July 2011, and the main session of the case assigned on 25 October 2011. VCAC satisfied Company's claim partly by its decision of 19 of December, 2011: a fine in amount of LTL 7 054 thousand, 6 percent annual interest for the period from 4 of November, 2010 until the day of fulfilment of this decision from the sum awarded, LTL 37 thousand and LTL 42 thousand of compensation expenses were awarded from the defendant KTE in favour of the Company.

As of 31 December, 2011 and of 31 December, 2010 the accrual for the sum of claims was not been made in financial statements of the Group and the Company, because the income from fines and penalties is shown in those statements only when it is paid-in.

On 24 August, 2010 KTE placed a preventive claim to Vilnius Commercial Arbitration court applying to forbid to the Company to terminate ex-parte and not appealing to the court a Power plant purchase agreement, also a Heat energy purchase agreement and the Investments agreement. On 12 August 2011 this preventive claim was rejected by the arbitration court after the case has been investigated. KTE did not place a complaint to the Lithuanian court of Appeal until 12 November 2011, so the decision of Vilnius Commercial Arbitration court remains unchanged.

On 21 January 2011 Kaunas city district court has applied by its decision a temporary protection remedy (TPR) in behalf of KTE and has obliged the Company to restrain from termination ex-parte and not appealing to the court of above mentioned agreements while the investigation of arbitration case is taking place. Notwithstanding the decision is appealed to the Kaunas county court, a TPR are applied since the moment of making the decision and the bailiff's precept regarding implementation of this obligation is already delivered to the Company. But on 11 March 2011 the Kaunas county court has complied with the particular complaint of AB Kauno Energija regarding this district court decision and has cancelled it, therefore any restrictions to terminate the above mentioned agreements as it is stated in them are not applied.

On 12 August 2010 The Securities commission of the Republic of Lithuania (further – Commission) has made a decision Regarding the case of breaking the law and has decided to fine the Company of LTL 50 thousand for breaking the part 4 of chapter 5 of Lithuanian Securities law (further – SL). By this decision the Commission obliged the Company to evaluate the long term assets received as nonmonetary contribution at their true value in accordance with requirements of chapter 24 of 16 IAS Immovable property, equipment and machinery. The Commission has also obliged the Company to use motivated and reasonably chosen assets evaluation methods, appropriate for this kind of assets and goals. And if there will be estimated, that the Company's financial statements and consolidated financial statements of the year 2009 are not in character with 16 IAS provisions, to correct in retrospect financial statements in accordance to chapter 24 of 16 IAS Immovable property, equipment and machinery when the Company's financial statements and consolidated financial statements of the year 2010 will be prepared. The Company has disagreed with this decision of Commission and has placed a complaint to Vilnius regional administrative court. On 24 January 2011 this complaint was rejected by the court. On 7 February 2011 the Company placed an appeal regarding this decision to the Supreme Administrative Court of Lithuania (hereinafter – SACL). On 16 of August, 2011 the court decided to renew the investigation of the case in essence. On 15 of December, 2011 SACL has made a decision, according to which a fine imposed by Commission was lowered to LTL 30 thousand, and in the other part the decision of Vilnius regional administrative court remained unchanged, thus the part of Commission decision regarding revaluation of assets, i. e. to oblige the Company to evaluate the long term assets received as nonmonetary contribution at their true value in accordance with requirements of chapter 24 of 16 IAS Immovable property, equipment and machinery. The Commission has also obliged the Company to use motivated and reasonably chosen assets evaluation methods, appropriate for this kind of assets and goals. And if there will be estimated, that the Company's financial statements and consolidated financial statements of the year 2009 are not in character with 16 IAS provisions, to correct in retrospect financial statements in accordance to chapter 24 of 16 IAS Immovable property, equipment and machinery when the Company's financial statements and consolidated financial statements of the year 2010 will be prepared. As of date of financial statements of the year 2011 a fine is accounted as expenses of financial activity. The nonmonetary contribution is accounted as it is described in paragraph Carrying value of non-current assets received as a contribution in kind of chapter 2.25 as of date of these statements.

#### Leasing and constraction work purchase arrangements

The Company entered into the lease arrangements with KTE for the real estate. Under this lease arrangement the Company leases to KTE the boiler with technological pipelines for heat production, located in Petrašiniai power plant territory. The term of lease if 5 years.

Contingent liability arising from valid other lease arrangements and purchase arrangements as at reporting date could not be reliably estimated.

## **25. Related parties transactions**

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

In 2011 and 2010 the Group and the Company did not have any significant transactions with the other companies controlled by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the entities controlled by the Kaunas city municipality were executed at market prices.

In 2011 and 2010 the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by Kaunas city municipality and amounts of receivables from and liabilities to them at the end of the year were as follows:

<b>2011</b>	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,668	33,199	16,103	255
Jurbarkas city municipality	4	2,278	19	50

<b>2010</b>	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	974	30,383	20,231	185
Jurbarkas city municipality	4	2,168	716	-

The Group's and the Company's as of 31 December 2011 allowance for overdue receivables from entities financed and controlled by municipalities amounted to LTL 6,686 thousand. (31 December 2010 – LTL 9,669 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

In 2011 and 2010 the Company's transactions with the subsidiary and the balances at the end of the year were as follows:

<b>2011</b>	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
Pastatų priežiūros paslaugos UAB	1,206	112	299	157

<b>2010</b>	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
Pastatų priežiūros paslaugos UAB	1,247	133	308	80

Remuneration of the management and other payments

As at 31 December 2011 and as at 31 December 2010 the Group's and the Company's management team comprised 6 and 4 persons respectively.

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Key management remuneration	523	450	416	350
Post-employment benefits paid	-	-	-	-

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Calculated post-employment benefits	70	53	70	53

In 2011 and 2010 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.



## **26. Post balance sheet events**

On 10 of January 2012 Minister of Energy of the Republic of Lithuania Arvydas Sekmokas has visited Company's Petrašiūnai power plant. Minister has been interested in possibilities of building a new bio-fuel burned power plant together with AB Lietuvos energija, in demand of investments in bio-fuel projects as well as Kaunas needs in heat production capacities. The information on two possibilities of Petrašiūnai power plant development was presented:

1. AB Kauno energija is going to install up to 44 MW biomass burned boiler herewith 16 MW steam turbine. The price of this project could reach up to 118,7 million litas. An application regarding partial financial support was presented to VŠĮ Lietuvos verslo paramos agentūra (Lithuanian Business Support Agency) in November 2011 (more details – in part “Strategic decisions” of 1 note);

2. The united project with AB Lietuvos Energija regarding “bare field” investment at the site of Petrašiūnai power plant by installing up to 50 MW biomass burned boiler herewith 25 MW steam turbine for production of electricity. The price of this project could reach from 260 up to 270 million litas. The point of it is the possibility of heat supply to Kaunas city at the optimum price. In minister's opinion, the Government of the Republic of Lithuania as the shareholder of AB Lietuvos energija would encourage the collaboration of her own company with AB Kauno energija, but Kaunas municipality must decide first regarding this possible collaboration.

On 27 January 2012 Lithuanian Energy Institute (LEI) and AB Kauno energija signed an agreement regarding creation and implementation of system of thermo-hydraulic parameters monitoring, analysis and prevention of breakdowns, which will be created by LEI and AB Kauno energija specialists and which will be implemented in Company's heat supply network. The system will function in a principal of remote reading and analysis of thermo-hydraulic parameters and will enable to reduce loss and to ensure more reliable heat supply by expeditious reaction to breakdowns or other occasions of network disturbance. The results received during research are planned to use for increasing effectiveness of AB Kauno energija activity and for increasing reliability of heat supply.

On 7 March 2012 the project of implementing of procurement order of centrally supplied heat was presented to potential independent heat producers in “Kauno energija”. This is the first theoretical document of this kind intended for heat supply systems not only in Lithuania but also in Europe. Unambiguous regulation would allow competition in heat production sector and for heat, supplied to the end users, price reduction.

On 21 March 2012 the new bio-fuel powered boiler with condensation economizer with total power of 6,5 MW started to function in AB “Kauno energija” Garliava boiler-house, in Kaunas district. The heat produced in this boiler is supplied to the consumers of Garliava borough. This boiler is one of the first bio-fuel powered devices in Lithuania, the construction of which was financed under an Energy Service Company (ESCO) financing model.

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## AB KAUNO ENERGIJA CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2011



**Translation note**

***This report has been prepared in Lithuanian language and in English language. In all matters of interpretations of information, views or opinions, the Lithuanian language version of this report takes precedence over the English version.***

**Confirmation by responsible persons to the Company's shareholders and the Bank of Lithuania**

Following Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we hereby confirm that, to the best of our knowledge, the Consolidated Annual Report reviewed by auditors and the audited Set of Consolidated Financial Statements for the year 2011 of AB Kauno Energija (hereinafter referred to as the Company or the Issuer) prepared in accordance with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and all the consolidated companies, and that the Consolidated Annual Report for the year 2011 contains a fair disclosure of business development and overview of activities, the state of the Company and the consolidated companies together with the description of exposure to key risks and uncertainties.

Kauno Energija AB General Manager



Rimantas Bakas

Kauno Energija AB Chief Accountant



Violeta Staškūnienė

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## 1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Annual Report of AB Kauno Energija has been prepared, is the year 2011.

## 2. Companies composing the group of companies and their contact data

AB Kauno Energija (hereinafter referred to as the Company or the Issuer) prepares both the Company's and the consolidated financial statements. The group (hereinafter referred to as the Group) consists of the Company and its subsidiary undertaking UAB Pastatų Priežiūros Paslaugos, in which the Issuer directly controls 100% of shares.

### The main data about the Company:

Name of the company:	AB Kauno Energija
Legal-organizational form:	Public company
Address:	Raudondvario rd. 84, 47179 Kaunas
Code of the legal person:	235014830
Telephone number:	(+370 37) 305 650
E mail:	<a href="mailto:info@kaunoenergija.lt">info@kaunoenergija.lt</a>
Webpage:	<a href="http://www.kaunoenergija.lt">www.kaunoenergija.lt</a>
Fax number:	(+370 37) 305 622
Registration date and place:	22 August 1997, Kaunas, Order No. 513
Register manager:	Kaunas Branch of State Enterprise Register Centre
VAT payer code:	LT350148314

### The main data about the subsidiary:

Name of the company:	UAB Pastatų Priežiūros Paslaugos
Legal - organizational form:	Private company
Address:	Savanorių ave. 347, 49423 Kaunas
Code of the legal person:	300580563
Telephone number:	(+370 37) 305 959
E-mail:	<a href="mailto:info@kaunoenergija.lt">info@kaunoenergija.lt</a>
Webpage:	<a href="http://www.p-p-p.lt">www.p-p-p.lt</a>
Fax number:	(+370 37) 311 877
Registration date and place:	1 July 2006, Kaunas
Register manager:	Kaunas Branch of State Enterprise Register Centre
VAT payer code:	LT100002506015

## 3. The nature of core activities of the companies composing the group of companies

The nature of core activities of the Group is production and services. AB Kauno Energija is the parent Company of the Group. The Company produces and sells heat energy to consumers in Kaunas and Jurbarkas cities and in part of Kaunas administrative districts (Akademija borough, Ežerėlis bor., Domeikava village, Garliava bor., Girionys vil., Neveronys vil., Raudondvaris vil.) (hereinafter referred to as the Kaunas region). Since 1 May 2010 the Company supplies hot water (carry out hot domestic water supplier activities) for part of multifamily residential buildings in Kaunas and Jurbarkas cities and Kaunas region (in December 2011 the number of houses reached 145, including – 3 in Kaunas region and 5 in Jurbarkas) (hereinafter in text the supplies of heat and hot domestic water referred to as the heat). In addition, the Company produces electric energy in small quantities in Kaunas city and Kaunas region and the steam in Kaunas city. The Group and the Company carry out supervision of indoor heat and (or) hot water supply systems, maintenance of heating substation facilities (the expenses of which are covered since 1 November 2011 from the Company's profit according to the law), repairs of buildings and constructions, repairs of heating substations and other heating facilities, provides rental services of transport and premises, and other services to individuals and legal entities in relation to the supervision and maintenance of heat economy. The Group and the Company are engaged in licensed activity in accordance with the licenses held.



#### 4. The Issuer's agreements with finance broker companies and (or) credit institutions

On 1 April 2003 the Issuer signed Service Agreement with AB SEB Bankas (company code 112021238, Gedimino ave. 12, Vilnius), represented by the Finance Markets Department.

#### 5. Trade in securities of companies composing the group of companies in regulated markets (the name of regulated market, the amount of securities in trade)

As of 31 December 2011, the 20,031,977 of Issuer's ordinary registered shares (twenty million thirty one thousand nine hundred seventy seven) (VP ISIN code LT0000123010) with total nominal value equal to LTL 120,191,862 (one hundred and twenty million one hundred ninety one thousand eight hundred sixty two) were included into NASDAQ OMX Vilnius Stock Exchange Baltic secondary trade list.

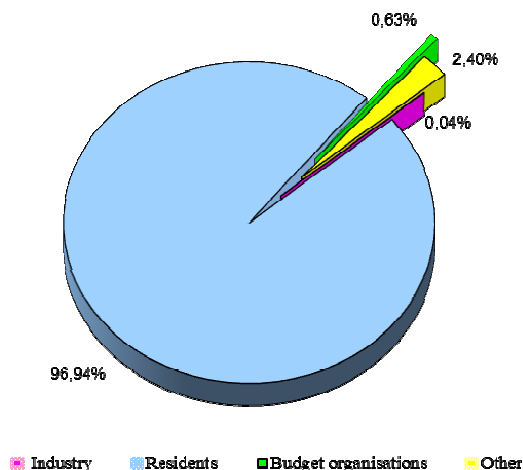
#### 6. Objective overview of the state, performance and development of the group of companies, and description of exposure to key risks and uncertainties

Chart 1

At the end of 2011, the Group covered approximately 90% of heat supply market in Kaunas and approximately 95% of heat supply market in Jurbarkas, and approximately 6% of maintenance of indoor heating and hot water supply systems and heat substation facilities market in Kaunas city and approximately 0,5% in Kaunas region. 3,627 enterprises and organizations, as well as consumers from 114,813 units of residential households were connected to the integrated and local heat supply network of the Company.

In 2011, the Group and the Company earned LTL 13,540 thousand and LTL 13,442 thousand profit (after tax), respectively. The Group's and the Company's income from the main activity amounted to LTL 309,345 thousand and LTL 308,622 thousand, respectively. The major part of income was generated from sales of heat: the Group's – 98.83%, and the Company's – 99.07%.

Distribution of number of the Company's heat consumers by group



The vision of the Group and the Company is to be modern, effective, competitive, and value creating group of companies engaged in heat and electric energy production, supply and distribution and in maintenance of buildings and indoor heating and hot water supply systems.

The values of the Group and the Company:

- more than 40 years of experience in heat production and supplies business;
- responsibility against customers for fail-safe heat and hot water supplies and for quality maintenance of buildings and of heating and hot water supplies systems;
- high qualifications of employees, enabling to reach a highest rates of efficiency;
- ability to inoculate a latest scientific achievements in the activity of companies;
- ability to cooperate with state and municipal institutions and also with academic institutions;
- ability to participate in creation of scientific programs;
- reputation of reliable modern and solid group of companies.

The strategic goals of the Group and the Company:

- to maintain the current position of companies in the market, and to expand it;

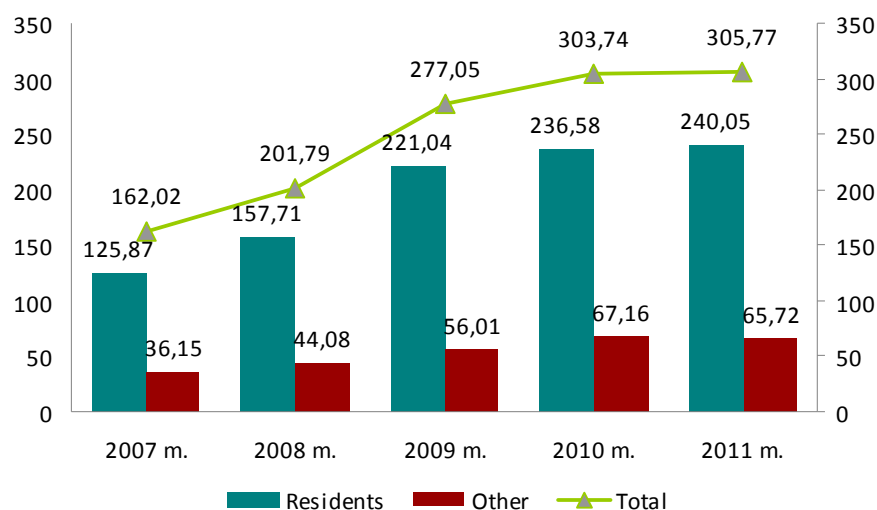


- to fulfil all the measures indicated in investment plans until the end of the year 2015 in order to ensure fail-safe heat supplies;
- to expand the use of renewable energy sources in Company's heat production facilities in order to fulfil the requirement of directive 2009/28/EB to produce not less than 23% of heat of renewable energy sources until the year 2020;
- to expand the competition in heat production sector;
- purposefully reduce the expenses of production, service and management in both companies of the Group in order to reduce the net price of centrally supplied heat and of maintenance of buildings and of heating and hot water supplies systems for customers.

The Company performs its activity depending on strategic guidelines of Kaunas city heat supply, which was approved by the decision No T-236 of Kaunas city council of 7 April, 2011 "Regarding strategic guidelines of Kaunas city heat supply".

In 2011, the Company's revenue from sales of heat reached LTL 305,766 thousand, comparing to 2010, it increased by 0.66%. (see Chart 2).

Chart 2



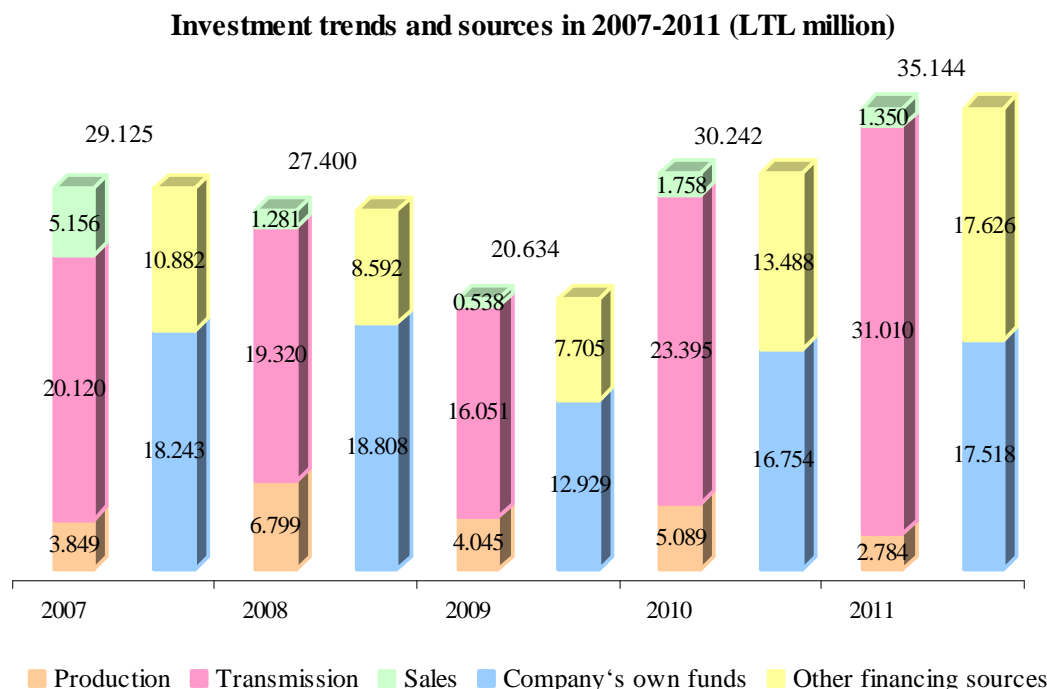
Already today it can be stated that the Group's investments into modern technologies (the automation of isolated and integrated network's boiler houses, e-services system for customers, automated customer billing system, distant heat meters' data transfer and processing system, modern customer servicing system based on 'One Call' principle), renewal and development of heat supply pipelines helps the Company to quickly adapt to changes in the market and to become an innovative company engaged in heat energy supply and maintenance of heating substation facilities and indoor heating and hot water supplies systems in Kaunas and Jurbarkas city and Kaunas region.

In 2011, the Company closed down the last 8 group heating substation facilities (boiler-rooms), from where the heat and hot water were supplied into multifamily residential buildings. Thus the renovation program of heating substation facilities, approved nationwide as far back as 1996 and implemented in whole country was complete. By implementing this program AB Kauno energija closed down overall 123 group heating substation facilities and installed more than 1300 modern automated heating substation facilities in multifamily residential buildings instead of them.

During 2011, the Company invested LTL 35,144 million (funds from other sources are among them, i.e. LTL 10,145 million represent loans of commercial banks, LTL 7,481million represent financial support from the European Union Structural Funds), from which LTL 882 thousand was allocated to connect 6 new consumers to the centralized heat supply networks with total capacity of 2.02 MW. During 2011, the invested funds were used to build new heat supply networks (3.17 km), and to reconstruct and renew the already existing heat supply networks 8.99 km. The Company's investments are illustrated in Chart 3.



Chart 3



For the period 2007-2011 issuer's used amount of the investment reflects the evolution of national and European Union macro-economic processes: in 2007 Company used LTL 29.125 million, in 2008, in the beginning of an economical slowdown processes, the amount of investments decreased to LTL 27.4 million, in 2009 investments were slightly above LTL 20.634 million. In 2010 investment performance amounted to LTL 30,242 million. In 2011 investment performance compared to 2010 increased by 16.2%. Such increase of investments can be linked to the growth of profitable Company's activity, sub-investment from the European Union structural funds, the improvement of credit terms (interest rate stabilization), the country's economic recovery following the recession and optimistic expectations.

Under the legislation regulating Company's activities Company's operating expenses are divided into heat production, transfer and sale costs. Therefore pursuing the investment program the investments are classified as investments in the heat production (when the funds are allocated to the production facilities / buildings, new construction and reconstruction projects), the heat transfer (when the funds are allocated to the heat supply networks new construction and renovation, the liquidation of group substations, heat meter installation and replacement, new customer connection projects) and heat sale (when the funds are allocated for remote metering system installation, customer's accounting and management systems, installation and upgrade).

*External risk factors affecting the main activity of the Group include* inflation, residual phenomenon of economical recession, increasing in fuel prices, unfavourable and often changing laws, governmental legislation and orders of other institutions, methodology interpretation, local self-government decisions, and heat price policy, which is under the influence of the main shareholder of UAB Kauno termofikacijos elektrinė regarding different prices for gas for its company and for other market players, also the absence of competitive heat production offer.

Different interpretation of theoretical methodologies (International Financial Accounting and International Valuation Standards) caused a different opinion of the auditors and the Company's management concerning Company's property - the collectors - value and valuation methods. Collectors, which are non-commercial constructions and were installed with heat, hot and cold water supply pipes and other infrastructural communications, which ensure that part of the Kaunas city population have access to use quality services,



defined as a public service, that means services to ensure that residents receive heat, hot and cold domestic water. There are pipelines in the collectors, such as: heat supply 61.48 km (supply and return lines), the hot domestic water supply - 1.48 km (supply and return lines), cold domestic water supply – 33.67 km. Without mentioned there are installed 207,251 km communications owned by the company AB TEO LT, 25.01 km electric cables owned by AB LESTO (earlier VST), 102.401 km other various telecommunication and IT service provider's cables. The purpose of collector construction (when the owner of the building was Kaunas city municipality) was to install infrastructural non-commercial facility, which would be equipped with the communication required for Kaunas city population, and these collectors were not expected to earn revenues from services to recipients of the Kaunas residents. Kaunas City Municipality in 2009 transferred to exploit these public infrastructure facilities (collectors) to AB Kauno Energija (92.82% of the Company's shares are owned by Kaunas city municipality). The decision indicated that collectors would be transferred to the Company's share capital, as a contribution in kind. As required by law, the property valuation was made for public infrastructural facilities – accounted for in Kaunas city balance sheet. The valuation was performed by UAB "Ober-Haus". The valuation has been carried out in accordance with the "Property valuation method" approved by Government of Lithuania Republic in 14 February 1996 resolution No. 244 "Concerning property valuation methodology", "Property and business assessment base law" 25 May 1999 law No. VIII 1202, resolution of Government of Lithuania Republic 13 December 1999 No. 1389 "On the property and business of Lithuanian Republic valuation base implementation", Property appraiser's professional code of ethics, approved by the Lithuanian Republic Auditing, accounting and valuation Institute Board in 14 September 2000 resolution No. 277, approved by European and International Valuation Standards TVS 2001, 2002, 2003; EVS 2000, 2003. The property (collectors) transferred to AB Kauno Energija were accounted for according to the value, that was determined by valuers. According to the Company, based in the State Enterprise Centre of Registers of real estate data, the value is specified in accordance with the value determined by independent assessors, which amounted to LTL 136.2 million, collectors' value is correct, method of determining the property - correct. This property (collectors) is a public facility to ensure the delivery of public services to Kaunas city residents, non-commercial and not for resale and depreciation of this asset is not included in the calculation of heat price. This value is accepted by all financial institutions in Lithuania, from which the Company has received loans for financing investment projects (with or without the European Union Structural Funds). In addition, there are more of examples in Lithuania, where the asset of energy facilities and infrastructure is valued by using this particular value determination method – the depreciated replacement cost method. Following the decision of The Securities Commission of the Republic of Lithuania No 2K-157 of 12 August 2010 which was confirmed on 15 December 2011 by the decision of Supreme Administrative Court of Lithuania, AB Kauno energija is obliged to revalue long term tangible assets received as a contribution in kind following the requirements of 24 chapter 16 TAS "Immovable property, equipment and machinery". It should be noted that this chapter supposes that the net cost of immovable property, equipment and machinery is evaluated in true value except cases when: a) there is not enough commercial ground for trade transaction or b) it is impossible to reliably evaluate a true value of neither obtainable nor transferable assets. If the obtainable assets unit is not evaluated as a true value, its net cost is evaluated as a balance value of transferable assets. The newly emitted shares were paid by a very specific asset (collectors – tunnels built and fitted for leading up of engineering communications, ensuring of exploitation and maintenance of these communications, so this kind of asset can be treated as a special purpose asset, i.e. an asset which is rarely sold or not sold at all. These circumstances are noted by independent evaluators in their asset evaluation report. So, in those cases even 24 chapter 16 TAS "Immovable property, equipment and machinery" allows to evaluate assets as a balance value. The assets evaluation report of UAB "Ober-Haus" was not contested and repealed in any judicial instance.

*Economic factors.* The Company engages the major centralized heat supplier's position in Kaunas and Kaunas district and Jurbarkas city. In order to retain it, it is important for the Company to adapt to the changing energy supply conditions, further implementing modern and efficient technologies, focusing on the quality service to the consumers.

The Group's sales directly depend on heat demand, i.e. heat energy consumption, which is mainly affected by average outdoor temperature, the consumers' investments into heat saving and rational consumption, and the growth rate of heat sales market. The dynamics of consumers' connections and disconnections is provided in Table 1.



Table 1

	2007 capacity, MW	2008 capacity, MW	2009 capacity, MW	2010 capacity, MW	2011 capacity, MW	2007–2011 capacity, MW
Consumers' disconnections	1.917	2.374	1.95	1.10	3.183	10.524
Consumers' connections	11.58	11.82	1.29	10.14	2.02	36.85

In 2011 the operation of Kaunas “Žalgiris arena” was started. The same year the agreement of heat purchase was signed with UAB Kauno arena, manager of arena. Installed capacity of arena heat consumption is 6 MW.

Inflation and overall economic recession, as well as lower incomes of heat consumers increase consumers' indebtedness, so in that case the Company is focused on improvement of organization of debt supervision. The debts of consumers in the year 2011 decreased by that in 10% compared to the year 2010. The debts of residents, amounting to 74% of all consumers, decreased by 8%, among them. The debts of other consumers decreased by 15.4%.

Natural gas is main fuel used in the process of generation of heat and electricity energy. Increasing prices of fuel have an influence on the Company's heat and electricity energy production cost, as well as the purchase price of heat energy purchased from UAB Kauno Termofikacijos Elektrinė (Kaunas Heat and Power Plant), which is the dominant production source, having a better operated technological facilities and possibility to buy fuel at the lower price.

The competition between other gas and electricity supply companies and the Group and the Company results in the disconnections of the consumers from the district heating system (during 2011 – 3.183 MW) and choosing alternative heat sources (gas, electricity or other types of fuel). The disconnections of heating facilities from centralised heat supply system are regulated by the Regulations of Heat Supply and Consumption (Žin., 2010, Nr. 127-6488) approved by the order No 1-297 of 25 October, 2010 of Minister of Energy of the Republic of Lithuania and the modification of them (Žin., 2011, Nr. 97-4575) approved by the order No 1-191 of 20 July 2011. The procedure of “Heat consumer facilities disconnection of heat supply system and of change of heating mode in premises or building initiated by consumer” approved by Kaunas City Council decision No T-244 of 9 April 2009 is recognized as spent by Kaunas City Council decision No T-11 of 26 January 2012.

The Group's and the Company's management structure was changed in 2009 and adjusted in the year 2010, which allowed to optimize and improve the effectiveness of the Company's operations.

The Group's and the Company's activity suffers from seasonality. During the heating season (October to April) the major part of revenue is earned from main activity, whereas during the non-heating season, the Company's heat generation capacity is not used in full, which results in the lowest revenue during this period, however, the Group and the Company have to prepare for the heating season (reconstruction and maintenance works are being implemented in the heat supply networks and boiler-houses, indoor engineering systems).

*Political factors.* During 2008 to 2009 there were significant changes in the laws regulating the Company's operation (the Lithuanian Law on Heat Economy (Žin., 2003, No. 51-2254; 2007, No. 130-5259; 2009, No. 10-355; 2009, No. 61-2402)) and heat pricing (*Methodology for Setting Heat Prices* (hereinafter – the Methodology) approved on 8 July 2009 by Resolution No O3-96 of the National Control Commission for Prices and Energy (hereinafter – the Commission)). According to heat energy price calculation project provided by the Company the basic price of heat supplied by Company is determined by the Commission every 4 years. The components of the basic heat price are determined in accordance with the procedure described in the Lithuanian Law on Heat for the period not shorter than 3 years and not longer than 5 years, and during the second and subsequent years they are applied by recalculating the components of heat prices. The invariable component is recalculated based on change in the cost of the adjustment factors that are



affected by inflation, changes in realized heat volume, investment depreciation (amortization) and other factors that do not depend on the supplier's operation as set out in the Methodology. The invariable component is adjusted when the fuel structure is changed as set out in paragraph 80.2.1.1 of the Methodology, when the provisions of paragraph 87 of the Methodology are applicable or when electricity generation gives profit (loss) at cogeneration power plant, it is used when reallocating the costs between heat and electricity generation in accordance with the procedure set out in the Methodology for Segregating Heat and Electricity Costs of Cogeneration Power Plants. The variable component of heat price may be adjusted based on changes in fuel structure, changes in operation efficiency tasks determined by the Commission, in accordance with the Description of Comparative Analysis approved by it and with reference to changes in electricity or consumable water prices. Based on Commission decision No O3-6 of 27 January 2012 "Regarding the change of the decision No O3-96 of 8 July 2009 of National Control Commission for Prices and Energy "Regarding Methodology for Setting Heat Prices", heat prices are recalculated every month with reference to the valid components of heat prices, varied fuel prices and (or) varied prices of heat purchased from independent heat producers.

Since the new amendments of the law No XI-1608 of change and complement of chapters 2, 3, 20, 22, 28, 31, 32 of the Lithuanian Law on Heat Economy came into force on 29 September 2011, according to the 7 chapter "No expenditures, coherent to buildings indoors heating and hot water supply systems (including heating substation facilities) can be included in heat and hot water prices". Since 1 November 2011 all these expenditures are refunded from the Company's profit.

Hot water pricing methodology approved on 21 July 2009 by Commission Resolution No.O3-106 (Valstybės žinios, 2009, Nr. 93-4012) regulates the principles of hot water price components, pricing requirements and price estimating order.

The recalls of members of Company's management bodies until the end of their terms, initiated by the Company's main shareholder may have an influence on the decisions of Company's management bodies.

Key exposures to financial risks and uncertainties of the Group and the Company are disclosed in Notes 23 and 24 of the Consolidated and the Company's Financial Statements.

*Social factors.* The activity of the Group and the Company is important to many residents and companies of Kaunas district. The complaints received by the Group and the Company mostly relate to the amounts billed. Heat consumers periodically, i.e. 3 – 4 times per year are invited to the meetings where the consumer actual issues related to the Company's activity are discussed.

*Technical-technological factors.* The most significant internal risk is caused by the heat supply systems and their current condition. Heat supply systems maintained by the Group and the Company are reconstructed using the most advanced technologies (polyurethane-foam isolated pipes, for which there is no need for ferro-concrete channels, a simpler drainage system) and equipment aiming to increase the efficiency of those systems.

The local standards and legal acts coordinated with the European Union standards and legal acts in the field of regulation of qualitative and technical data of operation of heat supply systems oblige the Company to make significant investments into modernization of the Company's asset. The economic position of the Group and the Company still condition insufficient investments into reconstruction of heat supply networks, renovation and rehabilitation of the equipment and development of the Group and the Company.

*Ecological factors.* The Group and the Company follow the requirements of the Kyoto Protocol, Helsinki Commission (HELCOM) and the Helsinki Convention for environmental limitations, Directive 2001/80/EC of the European Parliament and of the Council, pollutant emissions overrunning permissible LAND 43-2001 normative for the use of natural resources, for the emissions of combustion products and of certain pollutants emitted into the air. The main sources of pollution: burning of organic fossil fuel in the Company's heat production sources producing heat and waste water used in industrial processes.

The main pollution sources are: pollution of the atmosphere – organic fuel burning, and water pollution. The Group and the Company pay taxes for the atmosphere and water pollution every year. According to the



Lithuanian Republic laws fines are paid if the allowable norms of permitted pollutions and yearly limits have been exceeded. The main measures adopted by the Group and the Company for the reduction of emissions are as follows: reduction of the heat transmission losses through the installation of pipes with the polyurethane-foam insulation, implementation of new technological equipment and improvement of the existing ones, use of more environmentally friendly fuel and constant monitoring of pollution levels (in the 2011 balance of fuel, natural gas dominates – 90.70%, peat – 4.50%, biogas – 1.92%, wood residues (sawdust, cutting) – 2.88%).

*Repayment of bank loans:* Detailed information is presented in the AB Kauno Energija Consolidated and the Parent Company's Financial Statements for the year 2011, Note 11. The Group and the Company repay loans to banks in due time.

## 7. Analysis of financial and non-financial performance results of the group of companies, information related to environmental and personnel issues

It was planned in 2011 sales revenue and sales quantity of heat will be a similar level as in 2010. In 2011 sales revenue compared with 2010 increased 1%. This change was mainly caused by higher price of heat, which in December 2011 was 19.29% higher than in December 2010. Heat sales volume in 2011 was 10% lower, and the average annual temperature was higher (1.29 °C). During the 2011 heating season the average outdoor temperature was 0.25 °C, and in 2010, – (-2.3 °C).

The comparison of financial ratios for 2011 with the ones for 2009 and 2010 is presented in Table 2 below.

Table 2

No.	Financial ratios	Company 2009 m.	Group 2009 m.	Company 2010 m.	Group 2010 m.	Company s 2011 m.	Group 2011 m.
1	Net profitability, % (net profit /sales and services)*100	2.5	2.3	1.2	1.4	4.4	4.4
2	Return on tangible assets, % (net profit/average value of tangible assets)*100	2.9	2.7	1.2	1.3	4.1	4.1
3	Debt ratio (liabilities /assets)	0.32	0.33	0.37	0.37	0.34	0.34
4	Debt-to-equity ratio (liabilities / equity)	0.5	0.5	0.6	0.6	0.5	0.5
5	General liquidity ratio (short-term assets /short-term liabilities)	1.05	1.04	0.93	0.93	0.97	0.96
6	Asset turnover ratio ( sales and services/ assets)	0.73	0.74	0.74	0.75	0.74	0.75
7	EBITDA (earnings before interest, taxes, depreciation and amortization) LTL thousand	28,909	28,790	25,974	26,577	33,009	33,246
8	Gross profit margin (gross profit/sales and services)*100	3.8	3.7	2.3	2.4	2.4	2.4
9	Return on equity (ROE) % (net profit/average equity)*100	3.7	3.5	1.4	1.6	5.0	5.1
10	Return on assets (ROA) % (net profit/ average assets)*100	2.2	2.1	0.9	1.1	3.3	3.3
11	Quick ratio((short-term assets-inventory)/short-term liabilities)	0.97	0.97	0.88	0.88	0.91	0.90
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.04	0.04	0.04	0.04	0.08	0.08
13	Net earnings per share (net profit/average weighted number of shares in issue)	0.24	0.22	0.09	0.10	0.31	0.32
14	Net profit, LTL thousand	6,928	6,404	3,737	4,167	13,442	13,540
15	Assets, LTL thousand	384,012	379,746	410,541	406,762	416,069	412,255
16	Equity, LTL thousand	259,755	255,882	260,585	257,142	274,027	270,682

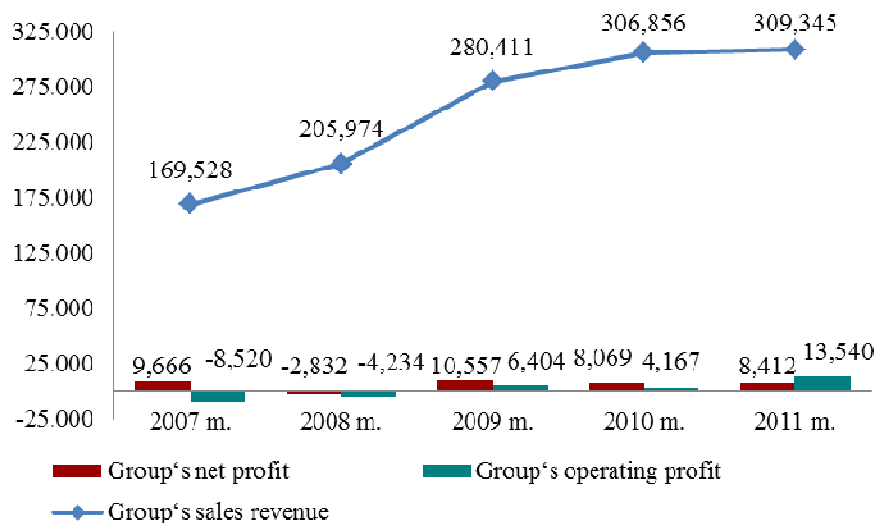
**COMPANY'S CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2011**  
(all amounts are in LTL thousand unless otherwise stated)

17	Equity per share, LTL	6.09	6.0	6.1	6.0	6.4	6.3
18	Revenue from sales, LTL thousand	279,548	280,411	305,441	306,856	308,622	309,345
18.1	Heat energy	277,053	277,001	302,602	302,546	302,893	302,842
18.2	Electric energy	393	393	349	349	568	568
18.3	Supervision of indoor heating and hot water supply systems, heating substation facilities	1,450	2,365	566	2,037	515	1,289
18.4	Income from emission permits and maintenance of collectors	535	535	439	439	866	866
18.5	Income from hot water with cold water price	-	-	1,485	1,485	3,725	3,725
18.6	Income from Emission Allowances trading	117	117				
18.7	Income from maintenance of hot water meters					55	55
19	P/E ratio (the last share market price of the year /(net profit/number of shares at year-end)	10.18	11.01	23.68	21.24	3.84	3.82
20	Share capital, LTL thousand	255,710	255,710	256,392	256,392	256,392	256,392
21	Share capital-to-assets ratio	0.67	0.67	0.62	0.63	0.62	0.62
22	Return on equity (capital) (net profit/capital and reserves)*100	2.7	2.5	1.5	1.6	5.2	5.2

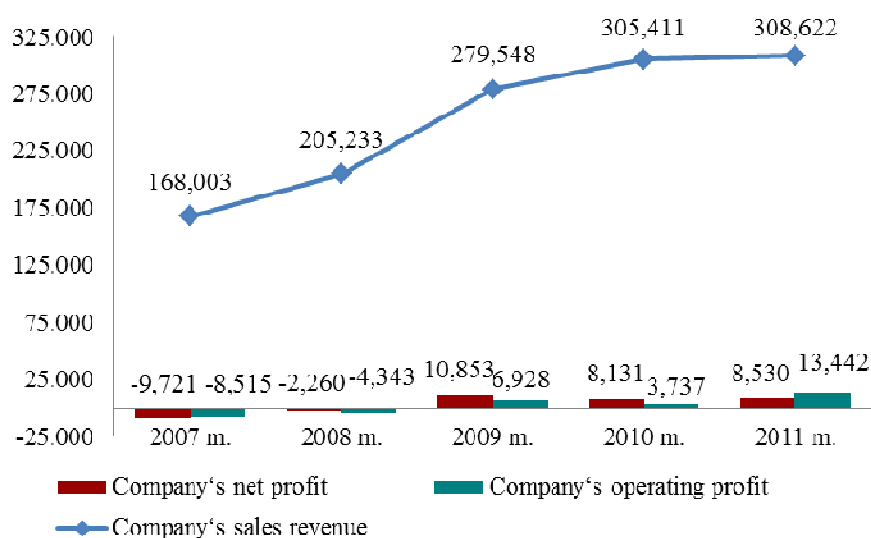
The comparison of the Company's financial results for 2011 (sales revenue, operating profit, net profit) with those for 2007 - 2010 is given in Charts 4 and 5.

*Chart 4*

**The Group's revenue and net profit in 2007 – 2011**



### The Company's revenue and net profit in 2007–2011



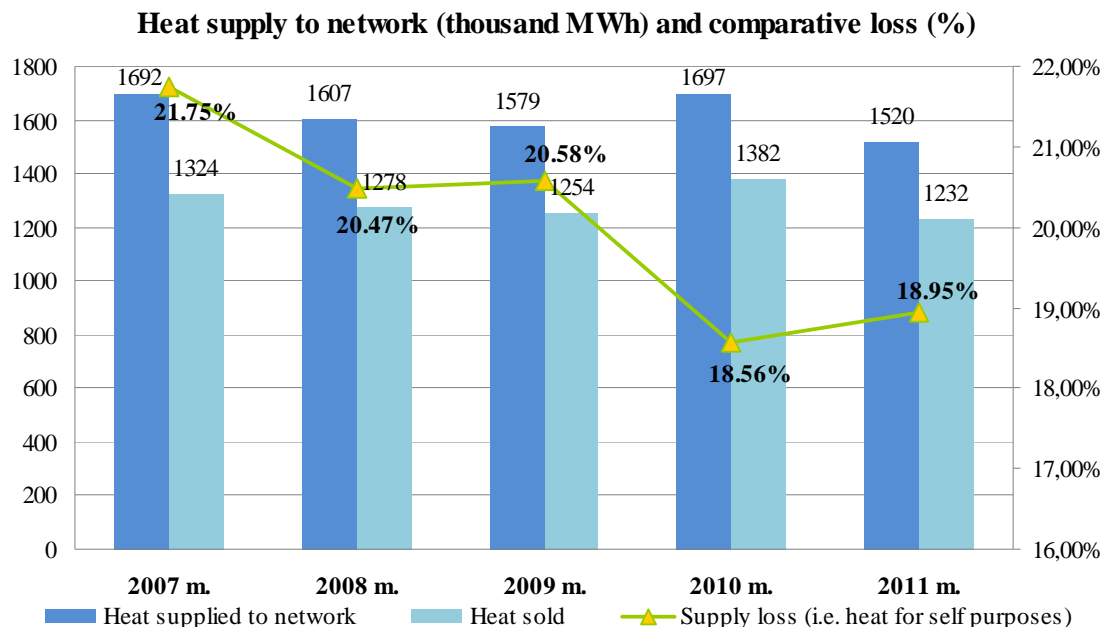
A more detailed analysis of the Group's and the Company's financial results is presented in the Notes to the Financial Statements for 2011.

The comparison of non-financial indicators for 2011 with the ones for 2009 - 2010 is presented in Table 3 below.

Table 3

No.	Non-financial indicators	Measure units	Company 2009 m.	Group 2009 m.	Company 2010 m.	Group 2010 m.	Company 2011 m.	Group 2011 m.
1.	Energy produced and purchased: from which supplied to the network	thousand MWh	1,601.8	1,601.8	1,698.0	1,698.0	1,521.8	1,521.8
1.1.	Heat energy	thousand MWh	1,578.7	1,578.7	1,696.7	1,696.7	1,519.8	1,519.8
1.2.	Electric energy	thousand MWh	1.3	1.3	1.3	1.3	2.0	2.0
2.	Energy sold	thousand MWh	1,255.7	1,255.5	1,383.2	1,382.9	1,233.9	1,233.7
2.1.	Heat energy	thousand MWh	1,254.4	1,254.2	1,381.9	1,381.6	1,231.9	1,231.7
2.2.	Electric energy	thousand MWh	1.3	1.3	1.3	1.3	2.0	2.0
3.	Heat supply networks reconstructed	m	3,599	3,599	6,030	6,030	8,990	8,990
4.	Heat supply networks newly constructed	m	340	340	2,470	2,470	3,170	3,170
5	Maintenance of indoor heating and hot water supply systems (area maintained)	m <sup>2</sup>	249,823	896,276	235,796	870,780	198,786	398,520

Chart 6

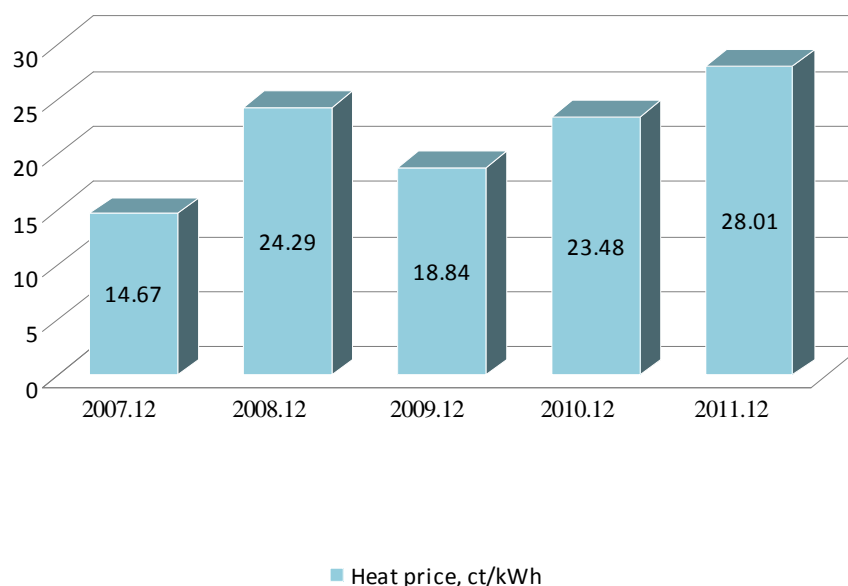


*Environmental impact on operation.* The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumers' investments into renovation of buildings, heat saving and rational consumption, average higher or lower outdoor temperature during the heating season, changes in fuel prices, heat purchase price from independent producers.

The change in the prices of heat supplied by the Company during 2007 to 2011 is presented in Chart 7.

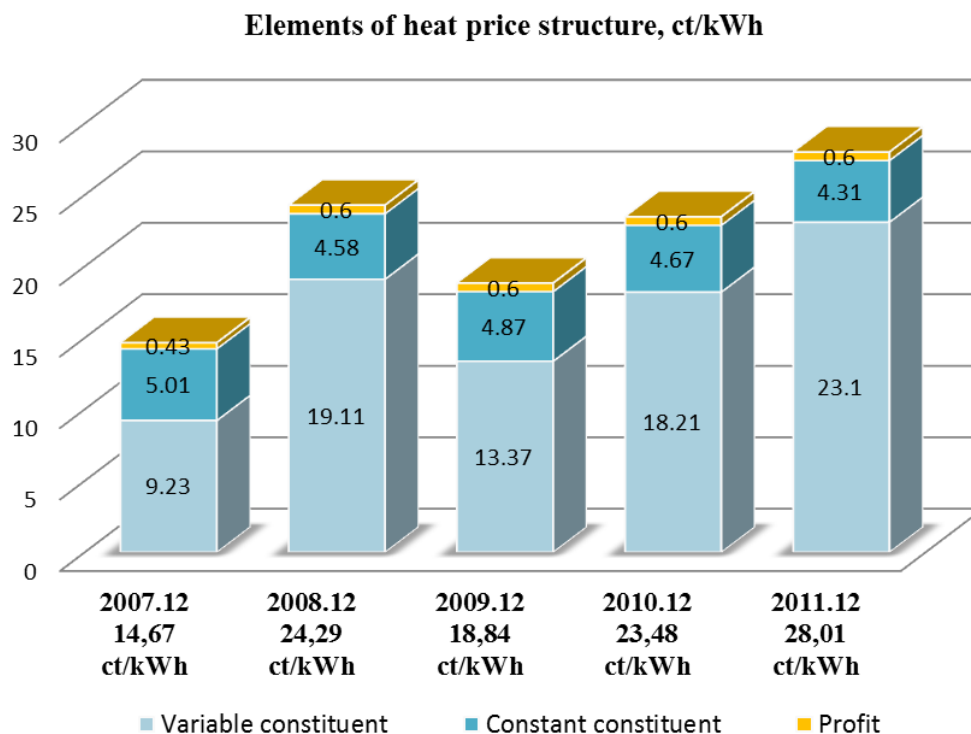
Chart 7

**Price of the heat supplied by Company, ct/kWh**



Elements of the of heat price structure during 2007 – 2011 are presented in Chart 8.

Chart 8



The average price of heat purchased by the Company in 2011 compared to 2010 increased by 2.32 ct/kWh (17.7%) and amounted to 15.43 ct/kWh.

*Environmental issues:* when performing their activities the Group and the Company seek not to waste natural resources, implement more environmentally friendly technologies, follow the requirements of legislation regulating environment protection issues, and apply preventive measures that help mitigate negative impact on environment.

*Waste management:* the Group and the Company have implemented the processes relating to internally-generated waste collection, sorting and transfer to waste management entities, i.e. companies that have waste management licenses. During 2011, the Group and the Company transferred for recycling 105.244 tones of mixed household waste, 0.166 tones of mercury lamps, 0.600 tones of electric and electronic equipment waste, 498.99 tons of scrap and 0.78 tones of used tires.

*Waste water management:* the Group and the Company continuously monitor whether waste water quantities from stationary pollution sources are in compliance with the established allowable limits as set out in pollution integrated prevention and control permits, in accordance with the Schedule agreed with Kaunas Regional Environment Protection Department.

*Atmosphere pollution:* the Group's and the Company's stationary air pollution sources measurement laboratory acting under the permit issued by the Environment Protection Agency, continuously monitors whether release of pollutants to atmosphere from stationary pollution sources are in compliance with the established allowable limits as set out in pollution integrated prevention and control permits. Biofuel is burned at Ežerėlis, Girionys and Noreikiškės boiler-houses thus reducing the atmosphere pollution. Table 4 below contains the comparison of quantities of pollutants released to atmosphere from the Company's stationary air pollution sources during 2011, with 2009 – 2010.



Table 4

Type of pollutant	Solid particulate matters	Nitrogen oxides	Carbon monoxide	Sulphur dioxide	Hydro-carbon	Vanadium pentoxide	Other
Emitted in 2011, t	7.2641	57.0909	125.3107	6.1983	3.0555	0.0000	0.4397
Emitted in 2010, t	8.4833	65.8444	146.8925	7.3386	2.6571	0.0000	0.4397
Emitted in 2009, t	9.7000	72.7000	179.8000	8.9000	3.4000	0.0000	0.4000

The cyclones were installed in Ežerėlis and Girionys boiler-houses in order to remove solid particulate matters from fume, and the efficiency of their operation is checked every year. The Company participates in greenhouse gas emission trading scheme, which encompasses Petrašiūnai Power Station, Pergalė boiler-house, Šilkas boiler-house, Garliava boiler-house, Noreikiškės boiler-house together with cogeneration power plant, branch office „Jurbarko šilumos tinklai“.

*Personnel issues:* management pays special attention to the improvement of work efficiency and service of consumers. The levels of professional qualification of management members and specialists correspond to their current duties. The length of service of other employees and practical knowledge of subject matter enable them to retain their current positions. The turnover of employees is not a significant problem in the Group and the Company, however, a certain need for qualified specialists can be identified.

## 8. References to and additional explanations of data presented in the annual financial statements, and key features of internal control and risk management systems relating to the preparation of the consolidated financial statements

All main financial data has been presented in the financial statements and notes for the year 2011.

*Internal control over consolidated financial statements.* When preparing its consolidated financial statements, the Company combines the financial statements of the Company and its subsidiary line-by-line, by summing up the items of assets, liabilities, equity, revenue and expenses. Afterwards, it eliminates: the book value of the Company's investment into the subsidiary and the Company's share of equity in the subsidiary; balance sheet balances, transactions, income and expenses inside the group. For this purpose, it prepares a reconciled report of all transactions, income and expenses for the period; difference in depreciation of contribution in kind measured at market value as compared to its book value.

For the purpose of preparing the consolidated financial statements of the group, the financial statements of the Company and the subsidiary are prepared as of and for the same date.

The Company's and the subsidiary's accounting policy is checked to determine whether it is the same when accounting for similar transactions.

The subsidiary's income and expenses are included into the consolidated financial statements as of the date of acquisition.

## 9. Significant events after the end of the financial year

On 2 January 2012 the session of Company's Supervisory Board took place in which members of Company's Managing Board Rimantas Bakas, Ramūnas Gatautis, Andrius Stankevičius, Mindaugas Šimkus were recalled and as the new members Giedrius Donatas Ašmys, Jonas Koryzna, Vytautas Mikaila, Vidas Rybelis were elected. An audit committee was recalled before the end of term in this session and the new members of audit committee Stasė Rožukienė, Inga Dragūnienė, Valerija Stankūnienė were elected.

It was decided on the 27 January 2012 session of Managing Board of AB Kauno energija to assign an administration of AB Kauno energija to renew the negotiations with AB Lietuvos energija regarding the new joint venture establishment project implementing ant to present to the Managing Board the decisions

projects, concerned with joint venture establishment and development of project of bio-fuel cogeneration power plant construction at the site of Kaunas Petrašiūnai power plant.

On 27 February 2012 Kęstutis Buinevičius elected as the member of Company's Managing Board by the decision of Company's Supervisory Board, instead of Zita Zalagėnaitė, resigned member of the Managing Board.

The negotiations group formed by AB Kauno energija performing the Kaunas municipality protocol decision No TP-18 of 8 December 2011 performed negotiations with UAB Kauno termofikacijos elektrinė regarding the modification and fulfilling of Investment agreement of 31 March 2003. The negotiations group stated that no compromise regarding the Investment agreement modification edition is reached between the sides and that AB Kauno energija has intentions to continue negotiations initiating the extension of their objective. It is intended to apply to the Managing Board of AB Kauno energija regarding the investiture of additional authorizations for further negotiations. AB Kauno energija expects to reach an agreement expedient for both sides and for Kaunas city. The main negotiations goal of AB Kauno energija is to reduce the heat price for consumers, also to ensure collaboration with UAB Kauno termofikacijos elektrinė from one side and to create conditions for competition between the producers from other side.

On 31 March 2012 the audit for the year 2011 was completed. It was performed by auditor UAB Deloitte Lietuva (auditor's certificate No. 001275). Audited financial statements and independent auditor's report concerning year 2011 accompany the Company's annual report.

## 10. Plans and forecasts of the activities of the group of companies

Investments create a strong potential for the sustained business development and profitability. The aim of the Group's and the Company's investment program for the year 2012 is to further develop the Company's heat production, transmission and distribution through increase of use of bio-fuel for heat production, heat supply reliability, expansion of maintenance services of engineering systems and improvement of services quality.

The major part of investments in 2012 is planned for the equipment of bio-fuel cogeneration power plants in Inkaras and Noreikiškės boiler-houses and for reconstruction of biomass burned boiler in Petrašiūnai power plant, for reconstruction and repair of heat supply networks. In 2011 the Company signed agreements on financial support from structural funds, and the following projects will be implemented during 2012: (i) "Modernization of Kaunas city integrated network Dainava main (1T)". The project value amounts to LTL 3.432 million, the EU's financial support contracted for LTL 1.560 million; (ii) "Modernization of Pramonė main (1Ž)". The project value amounts to LTL 4.859 million, the EU's financial support contracted for LTL 2.00 million;

In addition, the implementation of investment plans in 2012 will involve: further modernization of boiler-houses owned by the Company, making the production process automated and mounting condensing economizers; reconstruction of heat networks; replacement of heat meters; repairs of underground collectors and other important works. The implementation of these measures will allow to reduce heat production, transmission and selling losses and to perform optimization of heat supply to the consumers.

There is a prepared Investment plan and its financing sources of AB Kauno Energija in amount of LTL 257.74 million for the period 2012-2015 implementing the National Renewable Energy Development Strategy action plan provisions, key objectives of the company and attitudes of National Energy Strategy related with heat sources and heat supply network security technical requirements, which guarantee the quality of heat supply to consumers. Kaunas city municipal council approved the projects "Installation of bio-fuel cogeneration power plants in Noreikiškės and Inkaras boiler houses", "Biomass burning boiler with up to 44 MW heat with 16 MW power steam turbine projection and reconstruction in Petrašiūnai Power Plant" and intended them in mentioned investment plan in amount LTL 168.72 million. The projects of modernization and automation of heat production sources, reconstruction of main and quarter heat supply networks, connection of new consumers, renew of accounting and information systems, also installation of remote systems of heat and hot water accounting devices readings collection are involved in this plan. Starting from 1 May 2010 the Company is a hot water supplier, therefore the investment funds in amount of approximately LTL 2 million are planned to assign for the projects of hot water meters equipment.



Following the heat pricing methods intended investments accorded to the kind of activity divides as follows: 70.82% are planned to invest in production, 26.48% - in transmission and 2.70% - in sales.

However, it is important to note that the large flow of investment funds targeting acquisition the heat using bio-fuels sources, could lead to ambiguous results (especially if investments are financed with borrowed funds) because there is a real possibility in future increases in demand for bio-fuel and rising prices. Otherwise an unstable geopolitical situation may cause fossil fuel prices growth scenarios. It is clear that the increasingly expensive fossil fuels will increase the heat production costs (currently in the futures markets prices increase of crude oil and natural gas is observed), and at the same time increase the price for purchased heat. In order to maintain an optimal balance in planning and implementing investment projects the Group pays a great attention to political and market trend forecasting and analysis.

It is planned that the Group's sales revenue in 2012 compared to 2011 will be higher and a quantity of heat sold to consumers in 2012 will remain in the similar level. The Group's revenue and expenses will be mostly affected by changes in fuel price and heat purchase price, since the heat price is recalculated every month as prescribed by relevant regulatory legislation. The Group's profit is expected to remain in the same level as in 2011. However, such forecasts may be affected by changes in heat demand, i.e. consumption level, which depends mostly on the average outdoor temperature, also the scope of investments by consumers into the renovation of the blocks of flats, heat saving and rational consumption, as well as the changes of economic situation in Lithuania.

## **11. Information on research and development activities of the group of companies**

In 2007, the Lithuanian Energy Institute accomplished its research project *The Strategy of AB Kauno Energija for the Development of Heat Supply System during the Period from 2007 to 2020*. According to this strategy the Company implements mains pipelines changing projects partly financed by the funds of European Union structural funds, optimises diameters of pipelines, connects new consumers to the centrally supplied heat network and modernizes heat production sources.

In 2010, the Lithuanian Energy Institute accomplished its research project *The Renewed Strategy of AB Kauno Energija for the Development of Heat Supply System during the Period from 2007 to 2020*. In this strategy the necessity of wider bio-fuel use in Company's heat production sources is emphasized. In 2011, in accordance with this strategy the new projects of installation of bio-fuel burned equipment in Company's heat production sources were prepared and presented to Kaunas municipality and to The National Control Commission for Prices and Energy. In accordance with these projects the applications regarding partial financing were prepared and presented to the Lithuanian Business Support Agency in 2011

In 2010, Kaunas University of Technology has prepared "Petrašiūnai Power Plant Business Plan". In accordance with this plan a biomass burned boiler with up to 44 MW heat and with 16 MW power steam turbine is planned to equip. By burning wood it would not be necessary to use a Greenhouse Gas Emission Allowances and only this amounts approximately to LTL 1 million per year. The power of electric generator would be used and a big amount of "green" energy would be produced and it would create an assumptions for heat prices reducing.

On 21 July, 2011 the Company signed four agreements with Lithuanian Business Support Agency (hereinafter - LBSA) and Ministry of Economy of the Republic of Lithuania regarding projects financing and administration. The support allowed is LTL 5.8 million. This financial support will be used for modernization of Kaunas integrated network Dainava main (1T), modernization of Aukštieji Šančiai main (2Ž), reconstruction of Viljampolė heat network (9K) from Inkaras boiler-house to Šilainiai area and for modernization of Pramonė area main (1Ž). All these four projects will be implemented in the years 2012 – 2013.

Seeking to evaluate the possibilities of use of solar energy and heat pumps in the Company's centralized heat supply system, the Company started to implement a demonstration project of use of solar energy for making hot water. For this purpose the Company purchased and installed 2 sets of solar collectors 12 elements each, the accumulated solar energy of which will be used for making hot water in one of the Company's buildings.



In November 2011, the Company presented three applications regarding the financial support of European Union structural funds in accordance with the measure "The use of renewable energy sources for energy production" of 3-rd priority "Environment and Sustainable Development" of "Cohesion Promotion Action Programme". The support would be used for implementing following projects: "Construction of bio-fuel burned termofication power plant in Inkaras boiler-house". The sum of funds asked is LTL 6.0 million; "Construction of bio-fuel burned termofication power plant in Noreikiškės boiler-house". The sum of funds asked is LTL 5.7 million; "Reconstruction of Petrašiūnai power plant by installing bio-fuel burned cogeneration power plant". The sum of funds asked is LTL 6.0 million;

In 2011, two applications were presented to the Lithuanian Environmental Investment Fund regarding the partial financing of projects "Reconstruction of Noreikiškės boiler-house by installing a bio-fuel burned 4 MW water heating boiler". The sum of funds asked is LTL 2.5 million and "Reconstruction of Ežerėlis boiler-house by installing a bio-fuel burned 3.5 MW water heating boiler". The sum of funds asked is LTL 2.2 million.

In 2011, UAB Civitta and UAB Savvin accomplished a research study, the objective of which was evaluation of economical and technical effectiveness of Company's investments in heat production and transmission, also the presentation of business possibilities and guidelines until the year 2020. Conclusions on AB Kauno energija investments in heat economy during the period of 2009 - 2010 are presented in this document and economical and technical evaluation of these investments is accomplished. With reference to analysis of the investments accomplished and to the trends of centralized heat supply market a business development possibilities and guidelines until the year 2020 are presented as well.

In accordance to the Company's technical assignment the Company's management, administration and activity evaluation (audit) has been accomplished. It has been accomplished by VŠĮ Organizacijų vertinimo centras. The main and most important conclusions as well as possible process of suggested changes are presented in audit report.

## **12. Information on own shares acquired and held by the Issuer**

Neither the Company, nor its subsidiary had acquired the Company's own shares. Neither the Company nor its subsidiary purchased or sold own shares during the reporting period.

## **13. Information on financial risk management aims, hedging instruments in use that are subject to hedging accounting, and the scope of exposure of the group of companies to price risk, credit risk, liquidity risk and cash flow risk, provided the group of companies uses financial instruments and it is important for the assessment of assets, equity, liabilities, financial position and performance results of the group of companies**

All relevant information on this issue is presented in Notes 2.11, 23, 24 to the financial statements for the year 2011.

## **14. Information on the Issuer's branch office and subsidiary undertakings**

By the decision of the Company's Board, the Company's branch office Jurbarko Šilumos Tinklai was established and registered on 9 September 1997 at address: V. Kudirkos str. 11, 4430 Jurbarkas. Heat produced in the branch of the Company is sold to the consumers in Jurbarkas city.

At the end of 2011, the Company's branch office Jurbarko Šilumos Tinklai had 35 employees.

On 1 July 2006, the Company's subsidiary undertaking UAB Pastatų Priežiūros Paslaugos was registered at address: Savanorių ave. 347, 49423 Kaunas - 43, company code 300580563. Its authorized share capital amounts to LTL 6,518,000 and it is divided into 65,180 ordinary registered shares of LTL 100 par value each. Company owns 65,180 ordinary registered shares of UAB Pastatų Priežiūros Paslaugos.

The Company's subsidiary UAB Pastatų Priežiūros Paslaugos has no shareholdings directly or indirectly managed in other companies.



The subsidiary UAB Pastatų Priežiūros Paslaugos is engaged in the following activities: maintenance of indoor heating and (or) hot water supply systems and facilities of heating substations, repairs of buildings and constructions, repairs of heating substations and other heating facilities, provision of transport services, rent of premises.

The subsidiary's loss of the reporting cycle of 2011 was LTL 217 thousand. Cumulative loss from earlier years was LTL 960 thousand. In total unappropriated loss is amounted to LTL 1,177 thousand. As the law of change and addition of the Law on heat economy articles 2, 3, 20, 22, 28, and 31 the main point of it is to separate the maintenance of indoors heating and hot water systems from heat production and transmission came into force, AB Kauno energija discusses the matter of UAB Pastatų priežiūros paslaugos activities separation.

As at 31 December 2011, the Company's subsidiary had 45 employees.

## 15. Structure of authorized share capital

As of 31 December 2011 the registered authorized capital is LTL 256,391,862 (Two hundred and fifty six million three hundred and ninety one thousand eight hundred sixty-two).

The Issuer's share capital structure by type of shares is presented in Table 5.

Table 5

Type of shares	Number of shares, units	Par value, LTL	Total nominal value, LTL	Ownership interest of municipalities, %	Ownership interest of individual shareholders, %
Ordinary registered shares	42,731,977	6	256,391,862	98.33	1.67
Total:	42,731,977	6	256,391,862	98.33	1.67

## 16. Data on shares issued by the Issuer

As of 26 March 2010 the registered authorized capital is LTL 256,391,862 (Two hundred and fifty six million three hundred and ninety one thousand eight hundred sixty-two) and is divided into 42,731,977 (forty-two million seven hundred thirty one thousand nine hundred and seventy seven) ordinary registered shares of LTL 6 nominal value.

No restrictions exist in respect of transfer of securities.

### 16.1. The main characteristics of shares issued for public traded securities (31 December 2011).

Securities registration NO.	A01031430
VP ISIN code	LT0000123010
Number of shares	20,031,977 ordinary registered shares
Nominal value	LTL 6
Total nominal value of shares	LTL 120,191,862

### 16.2. The main characteristics of shares distributed and registered for circulation privately (31 December 2011).

VP ISIN code	LT0000128407
Number of shares	22,700,000 PVA
Nominal value	LTL 6
Total nominal value of shares	LTL 136,200,000



Trading history of the Company's securities is presented in Table 6.

Table 6

Trading history data	2007	2008	2009	2010	2011
Open (litas/euro)	4.58/1.327	3.50/1.014	2.00/0.579	2.45/0.710	2.072/0.600
Highest (litas/euro)	4.95/1.434	3.80/1.101	2.65/0.768	3.18/0.921	2.659/0.770
Lowest (litas/euro)	3.10/0.898	1.70/0.492	1.41/0.408	1.903/0.551	1.105/0.320
Last (litas/euro)	3.50/1.014	2.00/0.579	2.40/0.695	2.072/0.600	1.209/0.350
Traded , units	138,163	82,775	92,418	77,729	90,239
Turnover million (litas/euro)	0.55/0.16	0.26/0.08	0.19/0.05	0.2/0.06	0.18/0.05
Capitalization million (litas/euro)	66.39/19.23	37.94/10.90	102.28/29.62	41.5/12.02	24.21/7.01

Historical data on share prices and turnovers during 2007 to 2011 is illustrated in Chart 9.

Chart 9



## Comparison of AB Kauno Energija share price with OMX Vilnius index in the sector

Chart 10

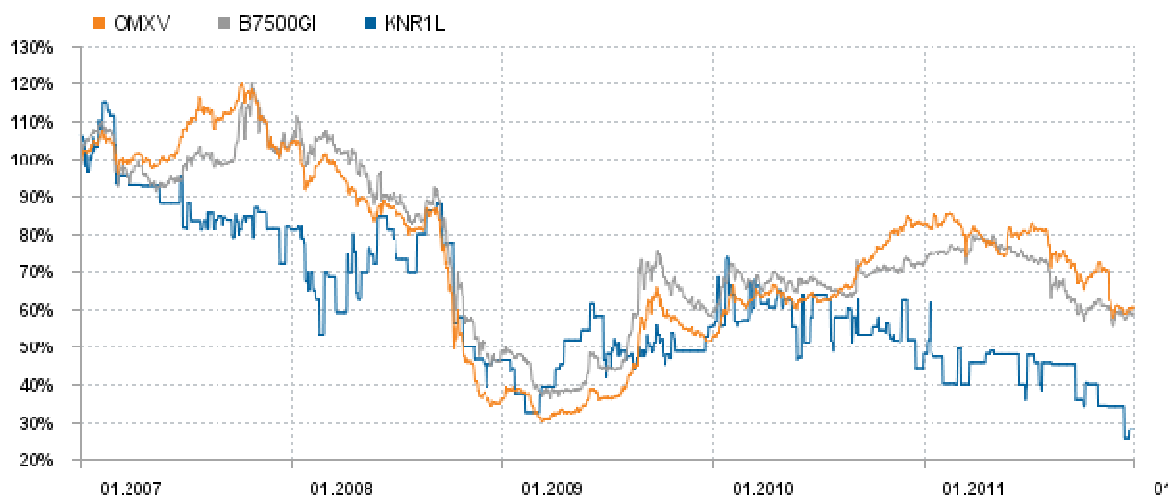


Chart 10 data:

Index/shares	1 Jan 2007	1 Jan 2012	+/-%
OMX Vilnius	492.65	298.78	-39.35
B7500GI	1,366.58	808.28	-40.85
KNR1L	1.25 EUR	0.35 EUR	-71.90

## 17. Information on the Issuer's shareholders

As of 31 December 2011, the total number of shareholders of AB Kauno Energija was 372

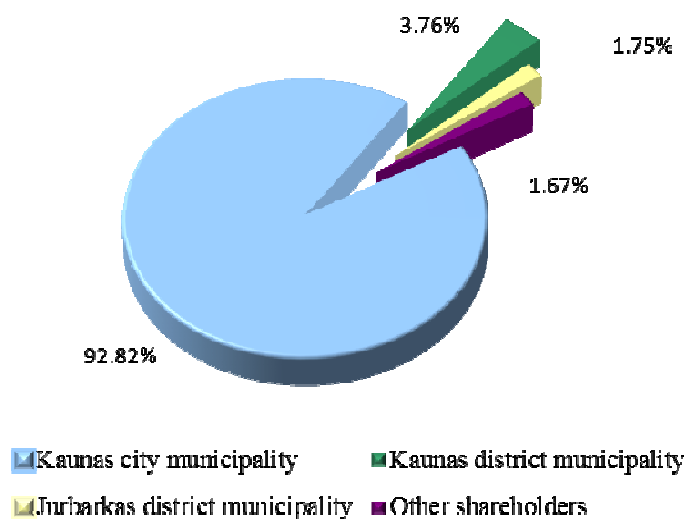
The Issuer's shareholders, whose ownership interest as at 31 December 2011 exceeded 5% of the Company's authorized share capital (42,731,977 ordinary registered shares) registered on 26 March 2010, are listed in Table 7 with additional data illustrated in Chart 11.

Table 7

Full name of shareholder (company name, type, registered address, code)	Number of ordinary registered shares owned by the shareholder, units	Ownership interest, %	Share of votes attributed to the shares owned, %	The share of votes owned by shareholders and jointly acting persons, %
Kaunas city municipality Laisvės Ave. 96, 44251 Kaunas Company code 111106319	39,665,892	92.82	92.82	-
Other minority shareholders	3,066,085	7.18	7.18	-
Total	42,731,977	100	100	-

Chart 11

**Shareholders structure as at 31 December 2011**



17.1. The shareholders, whose ownership interest as of 31 December 2011 exceeded 5% of the Company's shares (20,031,977 ordinary registered shares) issued for public trading (registration No. A01031430; VP ISIN code – LT0000123010), are listed in Table 8.

Table 8

Name	Type of shares	Number of shares, units	Total nominal value of shares, LTL	Portion of shares (%) as a percentage of shares issued for public trading	Ownership interest (%)
<b>Kaunas city municipality</b> Laisvės 96, 3000 Kaunas Company code 111106319	Ordinary registered shares	16,965,892	101,795,352	84.69	39.70
<b>Kaunas district municipality</b> Savanorių Ave. 371, 49500 Kaunas Company code 111100622	Ordinary registered shares	1,606,168	9,637,008	8.02	3.76
Other minority shareholders	Ordinary registered shares	1,459,917	8,759,502	7.29	3.42
<b>TOTAL</b>	Ordinary registered shares	20,031,977	120,191,862	100	46.88

17.2. The shareholders, whose ownership interest as at 31 December 2011 exceeded 5% of the Company's shares (22,700,000 ordinary registered shares) issued for non-public trading (VP ISIN code – LT0000128407), are listed in Table 9.



Table 9

Name	Type of shares	Number of shares, units	Total nominal value of shares, LTL	Portion of shares (%) as a percentage of shares issued for public trading	Ownership interest (%)
Kaunas city municipality Laisvės Ave. 96, 44251 Kaunas Company code 111106319	Ordinary registered shares	22,700,000	136,200,000	100	53.12

None of the Issuer's shareholders have any special control rights. Rights of all shareholders are equal, and they are defined in Article 4 of the Lithuanian Law on Companies. The number of shares, which grant votes during the general meeting of shareholders of the Company, is 42,731,977.

The Company is not aware of any restrictions on voting rights or any other arrangements among the shareholders that could result in restriction of transfer of securities and (or) voting rights.

In the year 2010 the dividends from 2009 year profit were allocated and paid for the issuer's shareholders. Earnings per share (dividend rate) – LTL 0,084, total dividends – LTL 3,589,486 (three million five hundred eighty nine thousand four hundred and eighty six litas).

In 2011 the dividends for the issuer's shareholders were not allocated and paid. The profit of the year 2010 was allocated to legal reserve, investments reserve and for support needs.

In 2011, the dividends were not committed and not paid for the Issuer's shareholders. The profit of the year 2010 was committed to investments, sponsoring and compulsory reserves.

## 18. Employees

As of 31 December 2011, the Group had 628 employees. The change in the number of employees during 2009 - 2011 is illustrated in Table 10.

Table 10

The actual number of employees	Company 31 12 2009	Group 31 12 2009	Company 31 12 2010	Group 31 12 2010	Company 31 12 2011	Group 31 12 2011
Total:	531	601	582	647	583	628
Including: managers	4	6	4	6	4	6
specialists	275	301	300	323	310	325
workers	252	294	278	318	269	297

In 2009, new management structures were approved for implementation at the Company and its subsidiary. For the optimization and improvement of efficiency of the Group's operations, restructuring processes were started at the Group companies in the middle of 2009. Upon the implementation of management restructuring process, some functions were discarded (construction, heavy transport), whereas some other functions were combined. All this had impact on change in the number of employees in 2009 as compared to 2008. In order to rationalize the work of the departments, in 2010 the Company's Board's decision was revised the Company's management structure approved in 2009. New divisions which will carry the hot water meter installation and maintenance in this structure are foreseen.

The level of education of the Group's and the Company's employees as at the end of the period

Table 11

No.	Education level	Company 31 12 2009	Group 31 12 2009	Company 31 12 2010	Group 31 12 2010	Company 31 12 2011	Group 31 12 2011
1	Secondary (unfinished)	13	15	10	12	9	11
2	Secondary	207	248	229	264	219	245
3	Post-secondary	86	92	93	97	92	98
4	Higher	225	246	250	269	263	274
	Total:	531	601	582	642	583	628

Average relative number of employees and average monthly salary (including taxes at the end of 2011)

Table 12

No.	Employees	Company	Group
1.1.	Average relative number of managers	4	6
1.2.	Average monthly salary of managers	7,518.0	6,385.2
2.1.	Average relative number of specialists	288.4	305
2.2.	Average monthly salary of specialists	2,726.8	2,687.3
3.1.	Average relative number of workers	260	291.4
3.2.	Average monthly salary of workers	1,950.2	1,908.0

The salaries of the Issuer's employees consist of invariable part, variable part, extra pays and bonuses paid in accordance with the provisions of the Lithuanian Labour Code and other laws. Bonuses are paid from net profit, provided the general shareholders meeting decides to allot a part of profit for the payment of bonuses to the Company's employees. Until 2012 the general shareholders meeting has not allotted any part of profit for the payment of bonuses to the Issuer's employees.

*Special rights and duties of employees of the Issuer or their part are set forth in collective employment agreement.*

Based on the collective employment agreement currently effective in the Company:

1. For continuous record of service in the Company employees are granted with additional paid vacations:
  - 1.1. for 5 years of service - 1 calendar day;
  - 1.2. for 6 to 10 years of service - 2 calendar days;
  - 1.3. for over 10 years of service - 3 calendar days;
  - 1.4. for each subsequent 5 years of service - 1 calendar day;
  - 1.5. Record of service is treated as continuous (in which case additional paid vacation days are granted at the Company), provided the employees used to work for the Lithuanian energy system companies and were transferred to work for the Company on the basis of mutual agreement of employers, i.e. when transfer was carried out in accordance with the Lithuanian Labour Code and the Lithuanian Law on Employment Agreement in effect.
2. The unpaid vacation can be given to the Company's employees upon an agreement with Employer because of family circumstances and other important reasons.
3. The Company's employees have a right to receive additional paid vacation days in the following cases:
  - 3.1. establishment of family relations (marriage) - 3 calendar days;
  - 3.2. death of a close person (one of the parents or one of the spouse's parents, spouse, brother, sister, daughter, son or lawful foster-child) - 3 calendar days;
  - 3.3. childbirth by wife - 1 calendar day;
  - 3.4. marriage of the employee's daughter, son or lawful foster-child - 3 calendar days.
4. Employer's obligations:
  - to ensure conditions for preventive medical examination of employees and, if necessary, for rehabilitation treatment, to provide free-of-charge services at the health centre of the Company;
  - in case of death of employee, to pay allowance equal to two last month's average monthly salaries at the Company or its branch office, to provide with free-of-charge transport or to cover transportation expenses. The allowance is to be paid to the person who was responsible for the burial;
  - in case of death of employee's close person (father, mother, husband or wife), to pay allowance equal to one last month's average monthly salary at the Company or its branch office, to provide with free-of-charge transport or to cover transportation expenses;
  - in case of birth of one or more children, to pay allowance equal to 25% of last month's average monthly salary at the Company or its branch office for each child;
  - in case of marriage, to pay allowance equal to 25% of last month's average monthly salary at the Company or its branch office;
  - for employees who raise three or more children under 16 years of age, widowers (widows) or single parents who raise one or more children under 19 years of age (provided they attend secondary school) and under 21 years of age (provided they are full-time students at post-secondary or higher education institutions), and for employees who take care of other family members with heavy or medium level of



- disability or work capacity lower than 55% and family members who reached retirement age and in respect of whom high or average level of special needs was established in accordance with relative laws, once a year to pay allowance equal to 50% of last month's average monthly salary at the Company or its branch office as at the date, on which the request for such allowance was submitted;
- for employees who reached 50 and 60 years of age with continuous record of service at the Company more than 20 years and good performance of duties, based on the order of top manager to award with monetary gift equal to 50% of last month's average salary at the Company or its branch office;
- on the occasions of celebrating the Day of Energy Specialists in Lithuania or the Company's operation anniversaries, the employees who are honoured and worthy to be praised receive a monetary gift of LTL 500;
- in all other cases when material support is required (in case of damages incurred as a result of natural disasters or other reasons that are beyond the employee's control), to pay allowance up to LTL 2,000 based on mutual agreement of authorized representatives who signed the Collective Employment Agreement;
- in case of serious illness of employee or a heavy accident, to pay allowance equal to up to 5 last month's average monthly salaries at the Company or its branch office, based on mutual agreement of authorized representatives who signed the Collective Employment Agreement.

## 19. Procedure for amending the Issuer's Articles of Association

Articles of Association of AB Kauno Energija provide for that the general meeting of shareholders of the Company has an exceptional right to make amendments to the Company's Articles of Association with exceptions set forth in the Lithuanian Law on Companies. When making a decision in relation to amendment of Articles of Association, the majority of 2/3 of votes of all the shareholders participating in general meeting of shareholders is required.

On 26 October 2010 Extraordinary General Meeting of Shareholders decided to change Company's statute evaluating the changes in legislation. On 11 November 2010 it was registered in Lithuanian Register of Legal Persons. It available to the Company's website at: [www.kaunoenergija.lt](http://www.kaunoenergija.lt).

## 20. Issuer's bodies

According to the Company's Articles of Association, the Company's managerial bodies are as follows: General Meeting of Shareholders, collegiate supervisory body – Supervisory Board, collegiate managerial body – Management Board and one-man managerial body – General Manager.

The decisions of the general meeting of shareholders made in relation to issues that fall within the competence of the general meeting of shareholders as set forth in the Articles of Association, are binding upon the shareholders, Supervisory Board, Management Board and General Manager, as well as upon other employees of the Company.

Individuals, who at the end of the reporting day of the general meeting of shareholders were the Company's shareholders, have the right to participate and vote at the General Meeting of Shareholders or at the repeatedly held General Meeting of Shareholders in person, with the exceptions set forth in relevant laws, or their authorized persons, or persons with whom the agreement on transfer of voting right was signed. The reporting day of the Company's meeting is considered to be the fifth business day before the General Meeting of Shareholders or the fifth business day before the repeatedly held General Meeting of Shareholders. The person participating at the general meeting of shareholders and having the right to vote is required to provide a document testifying his/her identity. The person, who is not the shareholder, beside the document testifying his/her identity is required to provide the document confirming his/her right to vote at the general meeting of shareholders.

The collegiate supervisory body – the Supervisory Board - is elected by the General Meeting of Shareholders in compliance with the procedure set forth in the Lithuanian Law on Companies. The Supervisory Board consists of 7 (seven) Supervisory Board members. The Supervisory Board members are elected for the period of 4 (four) years. The Supervisory Board elects the Chairman of the Supervisory Board from its members. The General Meeting of Shareholders has the right to recall the entire Supervisory Board or its

individual members prior to the expiry of their term of office. If the individual members of the Supervisory Board are elected, they are elected only for the current Supervisory Board's term of office.

The Supervisory Board elects and recalls from their duties the members of the Management Board, supervises the activity of the Management Board and the General Manager, presents to the General Meeting of Shareholders various opinions and suggestions on the Company's activity strategy, annual financial statements, profit (loss) distribution project and the Company's annual report, also on the activity of the Management Board and General Manager, provides suggestions to the Management Board and the General Manager to recall their decisions which contradict with the laws and other legal acts, the Company's Articles of Association or decisions of the General Meeting of Shareholders, decides on other issues relating to supervision of activities of the Company and its managerial bodies that are attributed by the General Meeting of Shareholders to the competence of the Supervisory Board. The Supervisory Board has no right to delegate or transfer its functions set forth in the Lithuanian Law on Companies to other bodies of the Company.

The Supervisory Board approves the rules for the establishment and operation of the audit committee, and elects the members of this committee. Based on the decision of the collegiate supervisory body (the Supervisory Board) dated 31 March 2009, the rules for the establishment and operation of the audit committee of AB Kauno Energija were approved. Following the decision of The Securities Commission of the Republic of Lithuania No 1K-18 of 21 August 2008 "Regarding the requirement to audit committees", on 18 August 2011 after the end of term of office of members of audit committee, the following members of audit committee were appointed: Stasė Rožukienė was appointed as the independent member of audit committee, Inga Dragūnienė – senior economist of the Company's Economics and Planning unit and Valerija Stankūnienė – Company's Deputy Chief Accountant.

On 29 December 2011 the new Supervisory Board was elected by the decision of General Meeting of Shareholders after recall of Company's Supervisory Board. This Supervisory Board elected following members of audit committee by the decision No 2012-1 of the session which has been held on 2 January 2012:

Stasė Rožukienė, Deputy General Manager of UAB Scaent Baltic Investment, an independent member of AB Kauno energija audit committee since 18 August 2011, on 3 January 2012 was re-elected as an independent member of audit committee. Education – university degree, economist undertaker. Workplaces and positions over the last 10 years: 24-09-2001—12-09-2002 – the director of Economics department of Kaunas municipality administration; 18-09-2002 – 30-12-2003 – UAB Station Market deputy director for finances; 31-12-2003 – 17-10-2007 – Internal Audit Department Manageress of Kaunas municipality administration; 30-10-2007 – 02-07-2010 – UAB SC Property General Manager.

Mrs. Rožukienė has no shares of the Company, nor any ownership interest in other Lithuanian companies.

Inga Dragūnienė, senior economist of the Company's Economics and Planning unit of the Department of Finances. Member of audit committee since 18 August 2011, on 3 January 2012 was re-elected as member of audit committee. Education – university degree, Kaunas University of Technology, master of management sciences in the field of finances management (2001). Workplaces and positions over the last 10 years: 15-10-1998—25-07-2006 – the senior accountant of AB Kauno energija; 26-07-2006 – 01-11-2009 – UAB Pastatų Priežiūros Paslaugos deputy chief accountant; 02-11-2009 – 07-05-2010 – UAB Pastatų Priežiūros Paslaugos referent.

Mrs. Dragūnienė has no shares of the Company, nor any ownership interest in other Lithuanian companies.

Valerija Stankūnienė, deputy chief accountant of the Company. Member of audit committee since 18 August 2011, on 3 January 2012 was re-elected as member of audit committee. Education – university degree, Vilnius University, accountant – economist (1983). Workplaces and positions over the last 10 years: 02-2003—01-2010 – UAB ARISBALTIJA Chief accountant; 02-1995 – 07-2002 – AB Šilkas chief accountant. Mrs. Stankūnienė has no shares of the Company, nor any ownership interest in other Lithuanian companies.

The members of audit committee perform their activity since 2 January 2012. Audit committee when implementing its activity follows the rules of AB Kauno energija audit committee formation and activity approved by Company's Supervisory Board on 31 March 2009. Audit committee performs functions indicated in 52 article of Lithuanian Audit law. Audit committee had three sessions over the year 2011.



The Management Board is a collegiate managerial body of the Company, which consists of 7 Management Board members. The Management Board is elected by the Supervisory Board for the term of 4 (four) years. The Supervisory Board has the right to recall the entire Management Board or its individual members prior to the expiry of its term of office. If the individual members are elected, they are elected only for the current Management Board's term of office. The Management Board elects the Chairman of the Board from its members.

The Management Board elects and recalls the General Manager of the Company, determines his/her salary, other employment terms and conditions, confirms his/her job description, motivates or assigns penalties, meets other the decisions related with LR Law on Companies, the Company's statutes or the shareholders meeting decisions, with the competence of the Board.

The General Manager is the manager of the Company. The manager of the Company is a one-man managerial body of the Company who organizes the Company's activity. The authority and responsibilities of the Company's administration members are determined by the order of the General Manager.

## 21. Members of the collegiate bodies, the company's manager, chief financier

*(job position, full name, data on ownership interest in the issuer's authorized share capital and the beginning and end dates of the term of office of every person, information about cash amounts estimated, assets transferred and guarantees issued to these persons by the issuer during the reporting period in total, and average amounts per each member of the collegiate body, manager of the company, and chief financier)*

### 21.1. Data about the members of the Company's Supervisory Board:

The Supervisory Board, elected by the decision of the Company's General meeting of shareholders held on 29 April 2011, was recalled on 29 December 2011 until the term of office.

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Rytis Šatkauskas	Supervisory Board chairman	29 April 2011	29 December 2011
Mrs. Ona Balžekienė	Supervisory Board member	29 April 2011	29 December 2011
Mr. Stasys Buškevičius	Supervisory Board member	29 April 2011	29 December 2011
Ms. Orinta Leiputė	Supervisory Board member	29 April 2011	29 December 2011
Mr. Kęstutis Mikėnas	Supervisory Board deputy chairman	29 April 2011	29 December 2011
Mr. Visvaldas Matijošaitis	Supervisory Board member	29 April 2011	29 December 2011
Mr. Artūras Orlauskas	Supervisory Board member	29 April 2011	29 December 2011



Mr. Rytis Šatkauskas, UAB Sabelijos prekyba, Director of Development Department. Member of Kaunas City Municipality Council. Chairman of Kaunas City Municipality Council Committee of City Economy, member of Privatization Commission. Mr. Rytis Šatkauskas has no shares of the Company. As of 30 June, 2011 he is shareholder of Ritėjus UAB (100% shares).

Mrs. Ona Balžekienė. Member of Kaunas Region Development Council, Member of Kaunas City Municipality Council, Member of the Committee of City development, investment and tourism. Member of Board of Kaunas Free Economic Zone Management Company, Deputy Chairman of the Liberals Movement of the Republic of Lithuania.

Mrs. Balžekienė has no shares of the Company, nor any ownership interest in other companies.



Mr. Stasys Buškevičius. Member of Kaunas City Municipality Council, Chairman of Kaunas City Municipality Council Committee of Titles and Ideas, Member of Budget and Finance Committee, Member of Control Committee, Member of Anti-corruption Committee, Member of Vote Counting Committee, Member of Ethics Committee, Member of Kaunas Lithuanian Self-defense Association Board.

Mr. Buškevičius has no shares of the Company, nor any ownership interest in other companies.

Ms Orinta Leiputė. Assistant-secretary of the Lithuanian Parliamentary Ms. B. Vėsaitė, Assistant at the Lithuanian Academy of Physical Education, Member of Kaunas City Municipality Council. Deputy Chairman of Kaunas City Municipality Council Budget and Finance Committee, Chairman of Kaunas City Municipality Council Privatisation Commission. Member of the Lithuanian Society of Young Researchers, Lithuanian Union of Social Democratic Party - Member of the Council and Presidium, Chairman in Kaunas division, Deputy Chairman of Lithuanian Union of Social Democratic Women, Member of Kaunas Club of Women Politicians MILDA (Initiative by women to improve democracy in Lithuania), Honorary Member of the Board of Society *Lietuvos Sakaliukų Sąjunga* (children and youth organisation). Member of Supervisory Board of Kaunas Clinical Hospital. The Chairman of Kaunas city municipality animal care and supervisory Board. The Chairman of Kaunas city municipality Nongovernmental organizations support Board. Forewoman of the united social democratic and nonparty fraction of Kaunas city municipality.



Ms. Leiputė has no shares of the Company, nor any ownership interest in other companies.



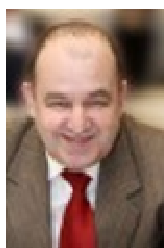
Mr. Kęstutis Mikėnas. Member of Kaunas City Municipality Council, Chairman of Kaunas City Municipality Council City Economy Committee, Chairman of Vote Counting Committee, Member of Privatization Commission Member of Strategy Planning Commission.

Mr. Mikėnas has no shares of the Company, nor any ownership interest in other companies.

Mr. Visvaldas Matijošaitis, Vičiūnai UAB, Director, Vičiūnai ir Ko, Commerce consultant, Plungės kooperatinė prekyba UAB, Commerce consultant, Member of Kaunas City Municipality Council, Member of Kaunas City Municipality Council Anti-corruption Committee, Member of City Economy Committee, Member of Control Committee, Member of Boards of public organizations Vieningas Kaunas, Vieningas Vilnius, Vieninga Lietuva, Association Žalgirio Fondas, President, Vice-president of Board of Lithuanian Industrialist Confederation's Lithuanian Economical and Trade Cooperation with Russian Federation, Member of Board of Mentor Lietuva Association, Member of Directors Board of VICHUUNAI EUROPE, NV, Member of Board of Kauno saulėtekis UAB, Member of Board of VICHUUNAI BALTIC, OU, Chairman of Board of Vičiūnai ir partneriai UAB, Member of Board of PALJASSAARE KALATOOSTUS AS, Member of Board of VICI logistika UAB, Member of Board of Pabirys UAB, Member of Council of VICHUUNAI NORDIC, OU, Chairman of Board of Plungės kooperatinė prekyba UAB.



Mr. Matijošaitis has no shares of the Company. As of 30 June, 2011 Mr. Matijošaitis has VICHUUNAI EUROPE N.V., Vičiūnai UAB, Vičiūnai ir Ko UAB, Graveda UAB, Plungės kooperatinė prekyba UAB, VIČIŪNŲ RESTORANŲ GRUPĖ, UAB, VICI Investments UAB, Kauno saulėtekis UAB shares.



Mr. Artūras Orlauskas. Public institution Socialinių projektų studija, Director. Member of Kaunas City Municipality Council, Chairman of Kaunas City Municipality Council Social, Health and Family Matters Committee, Deputy Chairman of Anti-corruption Committee, Member of Council Proceeding Regulation and Procedure Commission, Chairman of Board of Charity Foundation Vilties sala, President of Lithuanian water-polo Federation.

Mr. Orlauskas has no shares of the Company, nor any ownership interest in other companies. Founder of public institution Socialinių Projektų Studija.



*Members of 31 December 2011 Supervisory Board:*

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Rytis Šatkauskas	Supervisory Board chairman	29 December 2011	30 April 2015
Mr. Ričardas Juška	Supervisory Board member	29 December 2011	30 April 2015
Mr. Arvydas Garbaravičius	Supervisory Board member	29 December 2011	30 April 2015
Mrs. Edita Gudišauskienė	Supervisory Board member	29 December 2011	30 April 2015
Ms. Orinta Leiputė	Supervisory Board member	29 December 2011	30 April 2015
Mrs. Aušra Ručienė	Supervisory Board member	29 December 2011	30 April 2015
Mr. Gediminas Žukauskas	Supervisory Board member	29 December 2011	30 April 2015

Mr. Rytis Šatkauskas, UAB Sabelijos prekyba, Director of Development Department. Member of Kaunas City Municipality Council. Chairman of Kaunas City Municipality Council Committee of City Economy, member of Privatization Commission.

Mr. Rytis Šatkauskas has no shares of the Company. As of 30 June, 2011 he is shareholder of Ritėjus UAB (100% shares).



Mr. Ričardas Juška, mayor, member of Jurbarkas region municipality, chairman of privatization commission of Jurbarkas region municipality council, member of the Board of Association of Local Authorities in Lithuania, chairman of committee of health affairs of Association of Local Authorities in Lithuania. Member of Supervisory board of Tauragė regional waste handling center.

Mr. Juška has no shares of the Company, nor any ownership interest in other companies.

Mr. Arvydas Garbaravičius, partner of UAB ARJ CAPITAL, member of Kaunas city municipality council. Member of Committee of City Development, Investments and Tourism, Deputy Chairman of Control Committee, Member of Commission of Anticorruption. Member of Management Board of Public Institution Kauno Plėtros Forumas. Member of Management Board of Public Institution Sugihara fund Diplomats for life.

Mr. Garbaravičius has no shares of the Company. He has the shares of AB Ūkio bankas, Integra Group Holdings, AB Linas Agro Group, JSC GAZPROM NEFT, AS Olympic Entertainment Group, AS Baltika, AS Tallink Group, Yingli Green Energy Holding Co Ltd, VIADUKT D. D., NOKIA OYJ, DALEKOVOD DD, France Telecom SA, ENERGY SOLUTION RUSSIA AB, FEDERAL, RENEWABLE ENERGY CORP. ASA, SEVAN MARINE ASA, BELJE DD DARDA, Bank of America.



Mrs. Edita Gudišauskienė. Adviser to Minister of Agriculture of the Republic of Lithuania, Member of Kaunas City Municipality Council, Chairwoman of Committee of Budget and Finances of Kaunas city municipality, Member of Commission of Strategic Planning, Member of Commission of Anticorruption. Member of the Management Board of Lampėdžiai Community Center.

Mrs. Gudišauskienė has no shares of the Company, nor any ownership interest in other companies.

Ms Orinta Leiputė. Assistant-secretary of the Lithuanian Parliamentary Ms. B. Vėšaitė, Assistant at the Lithuanian Academy of Physical Education, Member of Kaunas City Municipality Council. Deputy Chairman of Kaunas City Municipality Council Budget and Finance Committee, Chairman of Kaunas City Municipality Council Privatisation Commission. Member of the Lithuanian Society of Young Researchers, Lithuanian Union of Social Democratic Party - Member of the Council and Presidium, Chairman in Kaunas division, Deputy Chairman of Lithuanian Union of Social Democratic Women, Member of Kaunas Club of Women Politicians MILDIA (Initiative by women to improve democracy in Lithuania), Honorary Member of the Board of Society *Lietuvos Sakaliukų Sąjunga* (children and youth organisation). Member of Supervisory Board of Kaunas Clinical Hospital. The Chairman of Kaunas city municipality animal care and supervisory Board. The Chairman of Kaunas city municipality



Nongovernmental organizations support Board. Forewoman of the united social democratic and nonparty fraction of Kaunas city municipality.

Ms. Leiputė has no shares of the Company, nor any ownership interest in other companies



Mrs. Aušra Ručienė, lawyer. Member of Kaunas City Municipality Council, Member of Committee of City Development, investments and tourism, Member of Control Committee, Chairwoman of Commission of Anticorruption, Member of Commission of Strategic Planning.

Mrs. Ručienė has no shares of the Company. She's a shareholder of UAB Ručenta.

Mr. Gediminas Žukauskas. Chief-engineer at UAB Kauno Vandenys. Member of Kaunas City Municipality Council, Chairman of the Committee of Self-Government and communities development, Member of Commission of Strategic Planning, Member of Privatization Commission, Member of Commission of Titles Contriving and Perpetuation of Memories. Chairman of Panemunė Community Center.

Mr. Žukauskas has no shares of the Company, nor any ownership interest in other companies.



During the reporting period no remuneration (salary or bonuses) was paid to the members of Supervisory Board, nor any assets were transferred or guarantees issued.

## 21.2. Data about the members of the Company's Management Board

As at 31 December 2011, the members of the Company's Management Board were as follows:

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Arvydas Augonis	Management Board chairman	3 May 2011	30 April 2015
Mr. Rimantas Bakas	Management Board member	3 May 2011	2 January 2012
Mr. Gintaras Čizikas	Management Board member	3 May 2011	30 April 2015
Mr. Ramūnas Gatautis	Management Board Deputy Chairman	3 May 2011	2 January 2012
Mr. Andrius Stankevičius	Management Board member	3 May 2011	2 January 2012
Mr. Mindaugas Šimkus	Management Board member	3 May 2011	2 January 2012
Mr. Zita Zalagėnaitė	Management Board member	3 May 2011	30 April 2015



Mr. Arvydas Augonis. Head of Development and Analysis Department in AB Kauno energija since 16 May 2011. Deputy Chairman of Liberal and Centre Union Kaunas Branch, Member of public organization Vieningas Kaunas, President of Lithuanian Arvydas club.

Mr. Augonis has no shares of the Company, nor any ownership interest in other companies.

LTL 49 thousand of salary was paid during the year 2011, no bonuses were paid, nor any assets were transferred or guarantees issued.

Mr. Rimantas Bakas. Doctor of Engineering. General Manager of Kauno Energija AB. Member of Management Board of the Company from 3 May 2011 to 2 January 2012. Member of Lithuanian heating technique engineers association, Member of Board of Kaunas Regional Energy Agency, Member of Lithuanian District Heating Association Board, Member of Lithuanian Energy Institute's the Scientific Board, the Chairman of Master's qualification commission in Kaunas University of Technology Thermal and Nuclear Engineering department, the expert approved by World's Energy Council the PET Committee of Lithuania. In 2008, Mr. Bakas participated as the member of working group in preparation of research study „Europe's Vulnerability to Energy Crises“, which was presented to the European Commission.

Mr. Bakas has no shares of the Company, or ownership interest in of other companies.

During the year 2011 earnings before-tax in amount LTL 192 thousand, no bonuses were estimated, nor any assets were transferred or guarantees issued.







Mr. Gintaras Čižikas. Lithuanian Labour Federation, Chairman of Kaunas County Department.  
Mr. Čižikas has no shares of the Company, or ownership interest in of other companies.  
During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued.

Mr. Ramūnas Gatautis. Lithuanian Energy Institute, Laboratory of Energy Systems Research, Doctor of Engineering. Member of International Association of Energy Economists.

Mr. Gatautis has no shares of the Company, nor any ownership interest in other companies.  
During the reporting period, no remuneration amounts (salary, bonuses) were paid, nor any assets were transferred or guarantees issued to this member of the Management Board.



Mr. Andrius Stankevičius. Member of the Board of Labour party, Chairman of Sports, Tourism and Recreation Committee.

Mr. Stankevičius has no shares of the Company, nor any ownership interest in other companies.

During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued.

Mr. Mindaugas Šimkus. Plungės kooperatinė prekyba UAB (Vičiūnai group), Head of Department of Economics.

Mr. Šimkus has no shares of the Company, nor any ownership interest in other companies.  
During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued.



Ms. Zita Zalagėnaitė. Sorestum UAB, Head of Development.

Ms. Zalagėnaitė has no shares of the Company, nor any ownership interest in other companies.

During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued.

By the decision of the session of Supervisory Board, held on 2 January 2012, the new members of Management Board were elected instead of recalled members of Management Board Rimantas Bakas, Andrius Stankevičius, Ramūnas Gatautis, Mindaugas Šimkus:

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Giedrius Donatas Ašmys	Management Board member	2 January 2012	30 April 2015
Mr. Jonas Koryzna	Management Board member	2 January 2012	30 April 2015
Mr. Vytautas Mikaila	Management Board member	2 January 2012	30 April 2015
Mr. Vidas Rybelis	Management Board member	2 January 2012	30 April 2015

Mr. Giedrius Donatas Ašmys. Unemployed (retired). Chairman of Management Board of „Pastatų priežiūros paslaugos“ UAB.

Mr. Ašmys has no shares of the Company, nor any ownership interest in other companies. During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued.



Mr. Jonas Koryzna. Doctor of Engineering. Vice-president of Kaunas Chamber of Commerce, Industry and Crafts, member of Council of Kaunas Chamber of Commerce, Industry and Crafts, member of Kaunas Rotary Club. President of Association of Nordic walking. Member of the Management Board of Lithuanian Public Health Association. Chairman of the Management Board of Kauno Autobusai UAB. Chairman of the Management Board of Baltijos Paslaugų Brokeris UAB.

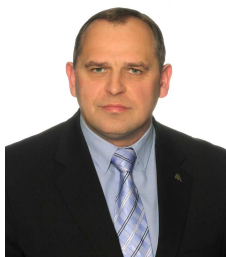
Mr. Koryzna has no shares of the Company. He has 100 shares with voting rights in Baltijos Paslaugų Brokeris UAB, and 70 shares with voting rights in RINKA PLIUS UAB. These shareholdings in the above-mentioned companies represent 100% of their share capital and votes.

During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued.

Mr. Vytautas Mikaila. Doctor of Engineering. MVE Group UAB, Director. Member of Association of Heating Technicians Engineers. Member of Rotary Club Kauno Taurus.

Mr. Mikaila has no shares of the Company, however, he has 55% of shares in MVE Group UAB.

During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued.



Mr. Vidas Rybelis, Director of Pastatų Priežiūros Paslaugos UAB, Member of Management Board of Pastatų Priežiūros Paslaugos UAB.

Mr. Rybelis has no shares of the Company, nor any ownership interest in other companies.

During the reporting period, no remuneration amounts (salary, bonuses) were paid, nor any assets were transferred or guarantees issued to this member of the Management Board.

On 27 February 2012 Mr. Kęstutis Buinevičius was elected as the Member of the Management Board instead of resigned Member of the Management Board Zita Zalagėnaitė.

Mr. Kęstutis Buinevičius, Senior Lecturer of Kaunas University of Technology, Doctor in Engineering, Heat and Atom Cathedral. Director of TermoTECHNIKA UAB.

Mr. Buinevičius has no shares of the Company, nor any ownership interest in other companies.

During the reporting period, no remuneration amounts (salary, bonuses) were paid, nor any assets were transferred or guarantees issued to this member of the Management Board.



### ***21.3. Data about the Company's manager and chief accountant***

Mr. Rimantas Bakas. General Manager of the Company since 24 November 2008, Doctor of Engineering. Member of Lithuania heating technique engineers association, Member of Board of Kaunas Regional Energy Agency, Member of Lithuanian District Heating Association Board, Member of Lithuanian Energy Institute's the Scientific Board, the chairman of Master's qualification commission in Kaunas University of

Technology Thermal and Nuclear Engineering department, the expert approved by World's Energy Council the PET Committee of Lithuania. Member of Management Board of the Company from 3 May 2011 till 2 January 2012. Education: higher, university degree, graduated from Kaunas University of Technology in 1985, industry heat energy engineer. Job positions during the last 10 years were: from October 2001 to February 2003, Lithuanian Bioenergetics and Energy Saving Association, vice-president and executive director; from 1 March 2001 to 1 May 2003 – project manager of Strategy Department at the Company; from 2 May 2003 to 2 January 2006 – senior project manager of Strategy Department at the Company; from 3 January 2006 to 21 November 2008, Head of Strategy Department at the Company.

Mr. Rimantas Bakas, General Manager of Kauno Energija AB is awarded with a letters of thanks of Lithuanian Association of Heat Suppliers (2007), Lithuanian Association of Electricity Energetic (2008), a letter of the World Energy Council Lithuanian Committee (2010) and the medal of Memory of 600 years Jubilee of Kaunas city, the Symbol of Honour of Lithuanian Energetic (2011).

He has no shares of the Company, or ownership interest in of other companies

Mrs. Violeta Staškūnienė. Chief Financier of the Company since 27 July 2000, and Chief Accountant since 16 January 2003. Education: higher, university degree, graduated from Vilnius University in 1984, work economy, acquired the profession of economist. Work record during the last 10 years and job positions held: from 22 June 1998 to 09 January 2000 – Chief Accountant of the Company's branch office Kauno Energijos Paslaugos; from 10 January 2000 – Deputy Chief Financier of special purpose public company Kauno Energija; from 1998 to April 2004 – Chief accountant of Itvizija UAB; from January 2003 to June 2004 – Chief accountant of Energijos Realizacijos Centras UAB. She holds 2,641 units of the Company's shares, which make less than 5% of the authorized share capital. She has no ownership interest in other companies.

During 2011, total remuneration estimated for the General Manager and Chief Accountant amounted to LTL 291 thousand, average amount per person – LTL 145 thousand; no other assets were transferred, no guarantees provided.

**22. All significant agreements, where the Issuer is one of the contractual parties, which would come into force, would be subject to amendments or termination in case of changes in controls of the Issuer, also their impact, except for those cases, when due to the nature of agreements, the disclosure of such agreements would cause significant damages to the Issuer**

None.

**23. All agreements of the Issuer and its managerial body members or employees, which provide for compensation in case of their resignation or termination of employment on no grounds or in case their employment is terminated due to changes in controls of the Issuer**

None.

**24. Information on major transactions with related parties**

There were no major individual transactions with related parties. Detailed information is presented in Note 26 to the financial statements.

**25. Information on compliance with the Governance Code of Companies**

Information on compliance with the Governance Code of Companies is presented in Annex 1 to the Annual Report. The report on Company's social initiatives and politics during the year 2011 is presented in Company's website.

**26. Data on publicly declared information**

To comply with the obligation set forth in the applicable legislation regulating the market of securities, the Issuer during the last 12 months declared in public the following information through GlobeNewswire news publication system, which is used to report announcements all over the European Union. This information was also placed on the Issuer's website. All information is available on **NASDAQ OMX Vilnius** website at address <http://www.baltic.omxgroup.com/?id=3304>, and the Issuer's website at address: [www.kaunoenergija.lt](http://www.kaunoenergija.lt)



Heading of announcement	Category of announcement	Language	Time
Information on the negotiations with Kauno Termofikacijos Elektrinė UAB	Other information	En, Lt	29.02.2012 – 15:54
Information on the election of the member of Kauno energija, AB management body	Notification on material event	En, Lt	28.02.2012 - 15:41
An intermediate unaudited financial statement of 12 months of the year 2011	Interim information	En, Lt	25.01.2012 - 16:02
Due to the Company's management Board decision to renew negotiations with Lietuvos Energija, AB	Notification on material event	En, Lt	24.01.2012 - 16:16
The activity result of the 12 months, 2011	Notification on material event	En, Lt	24.01.2012 - 16:07
Information on the election of the members of Kauno energija, AB management bodies	Notification on material event	En, Lt	02.01.2012 - 15:14
The decisions of Extraordinary General meeting of Kauno Energija, AB shareholders	Notification on material event	En, Lt	29.12.2011 - 13:45
Due to the decision of Vilnius Commercial Arbitration Court	Notification on material event	En, Lt	20.12.2011 - 13:31
Due to the Company's investment plans for the year 2012	Notification on material event	En, Lt	08.12.2011 - 15:59
The reconvening of Extraordinary General meeting of Kauno Energija, AB shareholders and decisions projects	Notification on material event	En, Lt	06.12.2011 - 12:38
Information of Kauno Energija, AB	Notification on material event	En, Lt	24.11.2011 - 15:31
The decision of Kauno Energija, AB Management Board	Notification on material event	En, Lt	24.11.2011 - 15:20
An intermediate unaudited financial statement of 9 months of the year 2011	Interim information	En, Lt	02.11.2011 - 15:57
The activity results of the III quarter, 2010	Notification on material event	En, Lt	28.10.2011 - 15:10
Due to the decision of Management Board	Notification on material event	En, Lt	19.08.2011 - 13:26
Intermediate information on Kauno Energija, AB of the 6 months	Interim information	En, Lt	12.08.2011 - 13:51
The activity results of the per I half, 2011	Notification on material event	En, Lt	28.07.2011 - 16:43
Information on the election of Kauno energija, AB management bodies	Notification on material event	En, Lt	03.05.2011 - 18:28
The activity results of the first quarter, 2011	Interim information	En, Lt	29.04.2011 - 13:31
Financial statements with the annual report	Annual information	En, Lt	29.04.2011 - 16:14
The decisions of General meeting of shareholders and activity results of the first quarter, 2011	Notification on material event	En, Lt	29.04.2011 - 16:00
Reconvening of General meeting of shareholders of Kauno Energija, AB and decisions projects	Notification on material event	En, Lt	06.04.2011 - 17:21
The audited activity result of the year 2010	Notification on material event	En, Lt	06.04.2011 - 14:40
Due to the final decision of Lithuanian Supreme Court	Other information	En, Lt	14.03.2011 - 17:22



Heading of announcement	Category of announcement	Language	Time
An intermediate unaudited financial statement of 12 months of the year 2010	Interim information	En, Lt	28.02.2011 - 16:36
AB Kauno Energija 2012 - 2015 year partial investment plan and its financing sources accepted	Notification on material event	En, Lt	25.02.2011 - 13:32
The activity result of the 12 months, 2010	Notification on material event	En, Lt	24.01.2011 - 16:12
Prognoses for activity of the AB Kauno Energija at the 2010 year	Notification on material event	En, Lt	20.01.2011 - 10:41

General Manager of Kauno Energija, AB

Rimantas Bakas

## 27. AB Kauno Energija report on the compliance with the Governance Code for the companies listed on the Stock Exchange NASDAQ OMX Vilnius

AB Kauno Energija, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the Stock Exchange NASDAQ OMX, Vilnius, for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICA BLE	COMMENTARY
<b>Principle I: Basic Provisions</b>		
<b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company prepares and revises the strategies of production and heat supply system development every year. Investment plans are being presented for ratifying to Kaunas city, Kaunas region and Jurbarkas region municipalities as well as to The National Control Commission for Prices and Energy (NCC). The provisions of the Company's strategy which contains no confidential information and the decisions-making process, as well as the Company's development policies and objectives of the years are published in the Company's annual reports and company's website. Periodic reports and notifications are disclosing the directions for Company's growth. Those reports, notification on material event and notifications are presented by the Company's managers and are published in press.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's board has also created a long-term and short-term Company's development strategic objectives. The management of the Company, the heads of the areas concerned are making their every effort in order to implement those objectives – the structure of the Company and of the subdivision of the Group is optimised.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Supervisory Board and the Management Board are formed. The Management Board adopts the strategic decisions and approves Company's business strategy. All the bodies of the Company (Manager, the Management board and the Supervisory board) aim to implement this recommendation, mutual meetings of the Management board and the Supervisory board are held.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the	Yes	The Company's supervisory and managing bodies aim to ensure all interests of the persons concerned. The Company's management and the separate areas managers spend a lot of time communicating with customers, suppliers,

company's operation, are duly respected.		representatives of the municipality, in order to find optimal solutions, related to the Company's activities. The specific of the Company ensures that consumers (customers) are periodically, i.e. 3-4 times a year, invited to attend meetings where the relevant issues related to the activity of the Company are discussed. In addition the "Open doors days" are being arranged in order to better inform customers and to ensure closer relations with them.
<b>Principle II: The corporate governance framework</b>  <b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The General Meeting of Shareholders and the Company's general manager are compulsory management bodies of the Company set by the Law on Joint Stock Companies of the Republic of Lithuania. The collegial supervisory body – the Supervisory Board and the collegial management body – the Management Board are also being formed.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	A collegial management body of the Company – the Management Board is responsible for the strategic management of the Company and also performs other key functions of the Company management. A collegial supervisory body – the Supervisory Board is responsible for the effective supervision of activities of the Company's managing bodies.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	The Supervisory Board and the Management Board is being formed.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. <sup>1</sup>	Yes	The Supervisory Board of the Company is elected and it acts partly in compliance with the principles III and IV set out in the procedures and basic principles for the requirements are not violated.

<sup>1</sup> Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. <sup>2</sup>	Yes	According to the Statute of the Company the Supervisory Board of 7 (seven) members is elected and the Supervisory Board elects the Management Board. It also is formed of 7 (seven) members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Supervisory Board of the Company is elected for 4 (four) years and according to the Statute of the Company and to the practice it is not forbidden to re-elect the members of the Supervisory Board for the new term (Supervisory Board member's number of terms of office is not limited). Also the General meeting of shareholders is able to recall the Supervisory Board in-corporate or its individual members before the end of term of Supervisory Board and the member of Supervisory Board is able to resign before the end of term giving a 14 days written warning.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of the Company's Supervisory Board hasn't been the General Manager of the Company. His current or past position is not an obstacle for independent and impartial supervision.
<b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b>  <b>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.<sup>3</sup></b>		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The mechanism of forming of the Supervisory Board, which corresponds to the requirements of the Law on Joint Stock Companies of the Republic of Lithuania, ensures the objective supervision of the collegial body.

<sup>2</sup> Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.

<sup>3</sup> Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.



3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information regarding candidates for the members of Supervisory Board is being disclosed for shareholders even before General meeting of shareholders. Information regarding their education, qualifications, professional experience, occupation and other important professional obligations is being presented in Company's annual and interim reports as well as in Company's website. It is foreseen in the work regulations of the Supervisory Board that every member of the body has to inform the Chairman of the Supervisory Board and the Company about his data change and this data is being presented in the Company's annual and interim reports as well as in Company's website.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Not applicable	The shareholders of the Company by offering candidates for the collegial body must ensure that these members have the required competence. The Company publishes only the information which is provided by the members of the collegial body. Information which is presented in the annual and in interim report (data on participation of the issuer's statute capital, data on participation in other undertakings, bodies and organisations (title of the company, institution or organization and personal occupation), is published in Company's website.
3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	According to the Company's structure and activities, the main shareholder of the Company introduces candidates for members of the collegial body with relevant qualifications. The Collegial body as a unit has a versatile knowledge, opinions and experience enabling them to perform their tasks properly. Audit Committee as a unit, has up-to-date knowledge and relevant experience in finance, accounting, and (or) auditing.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	Up to now in the practice of the Company all new members of the Supervisory Board were introduced to the Company and its activity were introduced jointly and there were no any annual verification of the members of Supervisory Board, as there was no such need.

3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient <sup>4</sup> number of independent <sup>5</sup> members.	No	The Company does not make any influence on the composition of the collegial body because the candidates to the members of the Company's collegial body are offered by the main shareholder. Because of that reason we didn't followed the recommendations.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as	No	The Company does not follow this recommendation because six members of the Supervisory Board represent the controlling shareholder, i. e. Kaunas municipality having 92.82% of votes. They are the members of Kaunas city council. One member of Supervisory Board is a member of council of Jurbarkas region municipality having 1.75% votes and is a mayor of the municipality

<sup>4</sup> The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

<sup>5</sup> It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

<p>defined in the Council Directive 83/349/EEC Article 1 Part 1);</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p> <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>		
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3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	The Company discloses dependence of the members of Supervisory Board in this report.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Not applicable	Information provided by members of the Supervisory Board regarding their education, qualifications, professional experience, occupation and other important professional obligations is being presented in Company's annual and interim reports as well as in Company's website.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. <sup>6</sup> The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	The members of the Supervisory Board are not remunerated from the Company's funds. So, this provision is not relevant for the Company.
<b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b>  <b>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring<sup>7</sup> of the company's management bodies and protection of interests of all the company's shareholders.</b>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. <sup>8</sup>	Yes	The Supervisory Board presents to the general shareholders meeting their opinions and proposals about the set of the Company's annual financial statements, profit allocation project, the Company's annual report, the activity of the Company's general manager and the Management Board, and also carries out other functions allotted to the Supervisory Board competence regarding the Company's and its managing bodies activity supervision. The Chairman of the Supervisory Board regularly meets the Chairman of the Management Board and the General Manager to discuss the events or changes of the Company that have taken place, also the essential questions of the Company's activity.

<sup>6</sup> It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

<sup>7</sup> See Footnote 3.

<sup>8</sup> See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the knowledge of the Company all the members of the Supervisory Board are acting in good faith in the interests of the Company following the Company's but not the own interests or interests of the third persons.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half <sup>9</sup> of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The members of the Company's Supervisory Board devote enough time and pay enough attention individually and collectively for the functions assigned to the competence of the Supervisory Board to carry properly. All the members of Supervisory Board took part in more than a half sessions of the Supervisory Board during Company's financial year.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's Supervisory Board in its work aim to behave honestly and impartially with all of the Company's shareholders and by the knowledge of the Company, there was no such kind of the contrary case. The Chairman of the Company's Supervisory Board and the Chairman of the Management Board communicate with shareholders, inform the shareholders about the Company's strategy, activity and other essential questions.

<sup>9</sup> It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies <sup>10</sup> . Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.	No	<p>Six members of the Company's Supervisory Board are representatives of the main shareholder – Kaunas municipality. One member is a representative of other shareholder – Jurbarkas region municipality.</p> <p>Based on the Company's opinion, the collegial management body and the Audit Committee are provided with sufficient resources, including their right to get all the necessary information, especially from the employees of the Company. Salary committee is not set up in the Company because the salaries of the managers of the Company, their deputies and of the chief accountant are determined according to the schedule approved by Kaunas municipality used in the municipality enterprises.</p> <p>In the annex of the Company's collective job agreement, there are statutes, which describe the determination of the salary of the Company's executive heads and their deputies and the fixed part of salary of the specialists and workers.</p>
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees <sup>11</sup> . Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees	No	<p>Starting from 31 March 2009 an Audit Committee which has three members is formed by the Supervisory Board.</p> <p>The Nomination and the Remuneration Committees are not formed in the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No. 4.6. In the future, the Company will seek to implement this provision.</p>

<sup>10</sup> In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

<sup>11</sup>The Law of the Republic of Lithuania on Audit (*Official Gazette*, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state ).

are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.		
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	Audit committee is formed in the Company. One member of this Committee is independent. The Committee acts independently and principally. The Supervisory Board is responsible for decisions made within its competence.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Audit Committee of three members is formed in the Company. Term of office of this Committee coincides with the term of office of the Company's Supervisory Board.

<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	No	<p>The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6. Other recommended disclosures are also not published in this annual report. The Company will seek to implement this provision in the future.</p> <p>Also the information about the composition of the Audit Committee, the number of meetings and attendance in the year 2011 is being published in the Annual Report.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	No	<p>The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6. The Company will seek to implement this provision in the future.</p>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <ul style="list-style-type: none"> <li>• Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;</li> <li>• Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</li> <li>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>• Properly consider issues related to succession planning;</li> <li>• Review the policy of the management bodies for selection and appointment of senior management.</li> </ul> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders'</p>	No	<p>The Company does not form the committee which would be obligated to perform all of the tasks that were designated for the Nomination Committee.</p>



meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ul style="list-style-type: none"> <li>• Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</li> <li>• Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;</li> <li>• Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;</li> <li>• Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;</li> <li>• Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</li> <li>• Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</li> <li>• Make general recommendations to the executive</li> </ul>	Not applicable	The Committee of Remuneration is not formed according to the circumstances shown in the article No 4.6.

<p>directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ul style="list-style-type: none"> <li>• Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</li> <li>• Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>• Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</li> </ul> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ul style="list-style-type: none"> <li>• Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</li> <li>• At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</li> <li>• Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should</li> </ul>	Yes	<p>As of 31 March 2009 the Audit Committee of three members was formed by the Supervisory Board. The term of office of this committee coincides with the term of office of the Company's Supervisory Board. This committee will seek to fully implement functions assigned to it by this recommendation.</p>

<p>be reviewed at least annually;</p> <ul style="list-style-type: none"> <li>• Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</li> <li>• Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</li> <li>• Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</li> </ul> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working</p>		
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<p>relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	No	<p>There was no practice of assessment of the activity of Supervisory Board at the Company and of informing shareholders about that up to now because the controlling shareholder who proposes candidates to the Supervisory Board exhaustively knows the experiences and competences of each candidate. The Company will seek to implement this provision in the future.</p>
<p><b>Principle V: The working procedure of the company's collegial bodies</b></p> <p><b>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</b></p>		
<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the</p>	Yes	<p>The Company fully implements this recommendation. The Company's Supervisory Board and Management Board are run by the Chairman de jure and de facto. In accordance with the work regulations of the bodies the chairmen of Supervisory Board and Managing Board convenes meetings, ensures proper informing about convening meeting and about agenda of the meeting. This recommendation is fully implemented by the Supervisory Board</p>

body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.		and by the Managing Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month <sup>12</sup> .	Yes	This recommendation is implemented by the Supervisory Board and by the Management Board.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The Company follows the order foreseen in the work regulations of the Supervisory Board and the Management Board and the information about the convened meeting is presented in advance together with an agenda and all the necessary information related to the meeting agenda. The Supervisory Board and the Board meeting agenda may be changed or added during the meeting, in the presence of all members of the collegial body, or when there is an urgent need to deal with Company's certain key issues.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The chairmen of Company's supervisory and management bodies coordinate dates of the meetings, their agendas and cooperate in solving other issues of corporate governance.
<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>		
<b>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</b>		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The ordinary registered shares which make the authorized capital of the Company give the equal rights for all share owners.

<sup>12</sup> The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. <sup>13</sup> All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	In compliance with the Law on the Joint Stock Companies and the Company's statutes the transactions confirmation issues foreseen in this recommendation are ascribed to the competence of the Management Board but in individual cases for the asset disposal transactions the Company applies to the shareholders meeting.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	There is a possibility for shareholders to vote in advance by filling up a general vote bulletin.
6.5. If it is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Information about the draft shareholders decisions and the decisions taken by the shareholders meeting the Company publicly places on the Company's website and disseminates it through the Stock Exchange NASDAQ OMX, Vilnius GlobeNewswire used information dissemination system, as it is foreseen in the Law on the Joint Stock Companies not only in Lithuanian, but also in English.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The shareholders of the Company can implement the right to participate in the General meeting of shareholders personally or through their representatives if the person has a proper authorization or the voting right delegation agreement is made with him in compliance with the legal acts order. The Company also creates conditions for the shareholders to vote in

<sup>13</sup> The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

		advance in writing by completing the general voting bulletin as it is foreseen by the Law on the Joint Stock Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	Not applicable	According to the order of the Company's shareholders meetings and the lists of shareholders, there was no need to implement this recommendation in the Company up to now.
<b>Principle VII: The avoidance of conflicts of interest and their disclosure</b>		
<b>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</b>		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The members of the Company's Supervisory and of the managing bodies act in according with the interests of the Company and their competences and individual features suggest that they behave so as to avoid conflicts of interests and they were not observed in practice. The members of the Company's Supervisory and of the managing bodies did not conclude deals with the Company, including high value deals or ones made in not standard conditions.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	

7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The members of the Company's supervisory and management body are not entered into transactions with the Company, including those consisting of high value or non-standard conditions.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	In accordance with the provisions of the Law on Joint Stock companies of the Republic of Lithuania, the members of the Company's Supervisory and of the managing bodies must abstain from voting when decisions on deals or other questions in which they have a personal or professional interest.
<b>Principle VIII: Company's remuneration policy</b>  <b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b>		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	Not applicable	The Company does not announce the report on the Company's remuneration policy. The remuneration policy as provided in this recommendation is not confirmed in the Company because this is not demanded by the legal acts. The remuneration for the Supervisory Board and the Management Board of the Company is determined by the shareholders meeting and there were no payments up to now. The remuneration of the managing director is determined by the Managing Board considering the schedule of remuneration order of managers of municipal enterprises, companies, municipal controlled joint-stock and close-end companies, their deputies and chief accountants approved by Kaunas municipality. Considering this schedule the remuneration of the deputies and chief accountant of the Company is determined. According to this there was no need to prepare separate remuneration policy. Nevertheless in compliance with the legal acts orders, the Company publicly announces the information on the termination payments and loans for the members of the Supervisory Board, the Management Board and administration (General Manager, Chief accountant) in the annual report. The information regarding average remuneration of employees of the Company is



		also announced in Company's website.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ul style="list-style-type: none"> <li>• Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>• Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>• An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> <li>• An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</li> <li>• Sufficient information on deferment periods with regard to variable components of remuneration;</li> <li>• Sufficient information on the linkage between the remuneration and performance;</li> <li>• The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>• Sufficient information on the policy regarding termination payments;</li> <li>• Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</li> <li>• Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>• Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</li> <li>• A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>• Remuneration statement should not include commercially sensitive information.</li> </ul>	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.

<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company, but the information on the termination and other payments is publicly announced in the Company's annual report.</p>
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</li> <li>• The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>• The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</li> <li>• If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</li> <li>• Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</li> <li>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ul> <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ul style="list-style-type: none"> <li>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>• The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</li> <li>• The number of share options unexercised at the</li> </ul>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>

<p>end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <ul style="list-style-type: none"> <li>• All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ul> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>• When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</li> </ul> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial <b>report</b> of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Not applicable	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Not applicable	
8.11. Termination payments should not be paid if the termination is due to inadequate performance	Not applicable	

8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.13. Shares should not vest for at least three years after their award.	Not applicable	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	

<p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company. Nevertheless, the Company publishes information on the remuneration of the members of the Supervisory Board, Management Board, General Manager and his deputies and to the chief accountant in Company's annual reports in accordance with the legislation. Information on average remuneration of Company's employees is also announced in Company's website. The Company does not use schemes under which the directors can be paid with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.</p>
<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</li> </ol>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the Company does not use schemes under which the directors can be remunerated with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.</p>
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	<p>Not applicable</p>	
<p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>		

8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company’s website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company’s website.		
<b>Principle IX: The role of stakeholders in corporate governance</b>		
<b>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</b>		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company follows all the requirements foreseen by the law for the stakeholders' opportunities to participate in the management of the Company, but any group of interest, having the right to participate in management of the Company, determined by the law, is not created yet in accordance with law.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company’s share capital; creditor involvement in governance in the context of the company’s insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
<b>Principle X: Information disclosure and transparency</b>		
<b>The corporate governance framework should ensure that timely and accurate disclosure is made on all material</b>		

<b>information regarding the company, including the financial situation, performance and governance of the company.</b>		
<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> <li>1) The financial and operating results of the company;</li> <li>2) Company objectives;</li> <li>3) Persons holding by the right of ownership or in control of a block of shares in the company;</li> <li>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</li> <li>5) Material foreseeable risk factors;</li> <li>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</li> <li>7) Material issues regarding employees and other stakeholders;</li> <li>8) Governance structures and strategy.</li> </ol> <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>	Yes	<p>The Company discloses information, provided in this recommendation, in the reports, in the annual and interim reports, the Company's website and Centre of Registers electronic publication, in which the public information of legal persons are announced, except the report of remuneration policy determined in VIII principle. This report is not prepared in the Company because of the reasons foreseen in the article No. 8.1., and it is not approved, as it is not required by the law. The remuneration for the members of the Company's Supervisory Board and of the Management Board is determined by the shareholders meeting, but it has not yet been assigned up to now (all of this is described in detail in annotation of VIII recommendations).</p> <p>The company also is attempting not to disclose the information that can affect the price of Securities issued by the Company in the comments, interviews or other means, as long as such information will be publicly announced at the NASDAQ stock exchange OMX Vilnius used GlobeNewswire dissemination system on the Company's website.</p>

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company simultaneously presents the information through the Stock Exchange NASDAQ OMX, Vilnius used information dissemination system GlobeNewswire in Lithuanian and English languages as it possible. The Stock Exchange NASDAQ OMX, Vilnius places received information on its website and in trading system assuring simultaneous presentation of this information to all. In addition, the Company strives to announce the information before or after a trading session on the Stock Exchange NASDAQ OMX Vilnius and to present it to all the markets in which there is trade in the Company's stocks at the same time. The Company does not provide the information which can have an influence on the price of its issued stocks on comments, interview and other ways till this information is publicly announced through the Stock Exchange NASDAQ OMX Vilnius used dissemination system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Company's information is published on its website in Lithuanian.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	All the information provided in this recommendation is placed on the Company's website, except the information on the changes in the price of the Company's shares on the Stock Exchange because this information is publicly placed on the Stock Exchange NASDAQ OMX, Vilnius, website and it can be reached by all the interested persons.
<b>Principle XI: The selection of the company's auditor</b>  <b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b>		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements	Yes	The set of annual financial statements and the annual report of the Company is verified by the independent audit company.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The candidature of the Company's audit company for the shareholders meeting if offered by the Management board in compliance with the results of the public competition implemented in 2010.



<p>11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.</p>	<p>Not applicable</p>	<p>The information provided in the recommendation was not presented to the shareholders because the audit company did not provide non-audit services for the Company in the year 2011.</p>
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