PUBLIC LIMITED COMPANY „KAUNO ENERGIJA“

LIETUVOS BANKAS
Žirmūnų str. 151, LT-09128 Vilnius

2012-04-24 Nr. 20- 1622

CONFIRMATION FROM RESPONSIBLE PERSONS

Following the guidelines of 20 article of the Law on Securities Market of the Republic of Lithuania and Lithuanian Securities Commission periodical and additional information preparation and presentation regulations, we General Manager Rimantas Bakas and Chief Accountant Violeta Staškūnienė PLC „Kauno energija“ approve, that according to our knowledge the PLC „Kauno energija“ interim financial reporting of the first quarter of the year 2012 is prepared according to the International Financial Reporting Standards, generally accreditated in European Union, satisfies actuality and correct indicate assets, liabilities, financial position and profit for time period of the enterprise.

ENCLOSING: AB Kauno energija set of consolidated and parent company's financial statements for the first quarter of the year 2012, prepared according to the International Financial Reporting Standards, as adopted by European Union ,45 pages.

Yours respectfully

General Manager Rimantas Bakas

Chief Accountant Violeta Staškūnienė

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AB KAUNO ENERGIJA

SET OF CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF THE YEAR 2012, PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION

Statements of Financial Position

	Notes	Group		Company	
		As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
ASSETS					
Non-current assets					
Intangible assets	3	255	305	251	299
Property, plant and equipment	4				
Land and buildings		27,380	27,673	25,980	26,259
Structures and machinery		294,465	295,319	294,482	295,336
Vehicles		216	259	223	242
Equipment and tools		11,206	11,880	11,146	11,813
Construction in progress and prepayments		1,258	998	1,258	998
Total property, plant and equipment		334,525	336,129	333,089	334,648
Non-current financial assets					
Investments into subsidiary	1	-	-	5,341	5,341
Non-current accounts receivable	5	43	43	43	43
Other financial assets	6	95	95	95	95
Total non-current financial assets		138	138	5,479	5,479
Total non-current assets		**334,918**	**336,572**	**338,819**	**340,426**
Current assets					
Inventories and prepayments					
Inventories	7	4,884	4,746	4,783	4,622
Prepayments		172	405	249	475
Total inventories and prepayments		5,056	5,151	5,032	5,097
Current accounts receivable	8				
Trade receivables		86,360	58,994	86,333	58,907
Other receivables		17,020	5,602	17,153	5,740
Total accounts receivable		103,380	64,596	103,486	64,647
Cash and cash equivalents	9	8,189	5,936	8,181	5,899
Total current assets		**116,625**	**75,683**	**116,699**	**75,643**
Total assets		**451,543**	**412,255**	**455,518**	**416,069**

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Statements of Financial Position
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		Group		Company	
	Notes	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
EQUITY AND LIABILITIES					
Equity					
Share capital	1	256,392	256,392	256,392	256,392
Legal reserve	10	635	635	635	635
Other reserve	10	3,468	3,468	3,468	3,468
Retained earnings (deficit)					
Profit for the current year		21,247	13,540	21,355	13,442
Profit (loss) for the prior year		10,187	(3,353)	13,532	90
Total retained earnings (deficit)		31,434	10,187	34,887	13,532
Total equity		**291,929**	**270,682**	**295,382**	**274,027**
Liabilities					
Non-current liabilities					
Non-current borrowings	11	35,222	32,169	35,222	32,169
Financial lease obligations	12	-	-	-	-
Deferred tax liability	21	6,771	6,771	7,440	7,440
Grants (deferred income)	13	23,942	22,211	23,942	22,211
Employee benefit liability	14	1,672	1,671	1,672	1,671
Other non-current liabilities		187	192	187	192
Total non-current liabilities		**67,794**	**63,014**	**68,463**	**63,683**
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12	9,231	11,305	9,228	11,295
Current borrowings	11	19,999	7,765	19,999	7,765
Trade payables	23	57,674	54,927	57,787	55,000
Payroll-related liabilities		2,597	1,978	2,356	1,758
Advances received		726	953	726	946
Taxes payable		185	102	170	70
Derivative financial instruments	15	303	333	303	333
Current portion of employee benefit liability	14	730	735	730	735
Other current liabilities		375	461	374	457
Total current liabilities		**91,820**	**78,559**	**91,673**	**78,359**
Total liabilities		**159,614**	**141,573**	**160,136**	**142,042**
Total equity and liabilities		**451,543**	**412,255**	**455,518**	**416,069**

(the end)

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

General Manager	Rimantas Bakas		20 April 2012
Chief Accountant	Violeta Staškūnienė		20 April 2012

Statements of Comprehensive Income

		Group			
		2012		2011	
	Notes	I quarter	2011	I quarter	2010
Income					
Sales income	16	175,474	309,345	143,229	306,856
Other operating income	18	422	2,343	405	2,202
Total income		**175,896**	**311,688**	**143,634**	**309,058**
Expenses					
Fuel and heat acquired		(134,343)	(233,756)	(99,709)	(221,932)
Salaries and social security		(5,297)	(22,334)	(5,258)	(20,608)
Materials		(433)	(1,962)	(440)	(1,674)
Taxes other than income tax		(1,018)	(4,312)	(1,064)	(4,350)
Electricity		(863)	(2,515)	(874)	(2,558)
Depreciation and amortisation	3,4	(3,978)	(15,888)	(3,939)	(15,788)
Repairs and maintenance		(550)	(5,703)	(411)	(4,236)
Water		(303)	(1,160)	(338)	(825)
Write-offs and change in allowance for accounts receivable	5,8	(4,583)	(2,189)	(2,695)	(17,289)
Change in allowance for inventories	7	-	(999)	-	30
Petrašiūnai power plant operator expenses	1	-	-	-	(812)
Maintenance of heating and hot water systems		-	(463)	-	-
Other expenses	17	(2,852)	(10,661)	(2,913)	(9,598)
Other activities expenses	18	(292)	(1,334)	(283)	(1,349)
Total expenses		**(154,512)**	**(303,276)**	**(117,924)**	**(300,989)**
Profit		**21,384**	**8,412**	**25,710**	**8,069**
Finance income	19	426	8,001	540	2,024
Finance costs	20	(563)	(1,653)	(428)	(2,405)
Finance cost, net		**(137)**	**6,348**	**112**	**(381)**
Profit before income tax		**21,247**	**14,760**	**25,822**	**7,688**
Income tax	21		(1,220)	0	(3,521)
Net profit		**21,247**	**13,540**	**25,822**	**4,167**
Total comprehensive income		**21,247**	**13,540**	**25,822**	**4,167**
Profit attributable to the shareholders			13,540		4,167
Basic and diluted earnings per share (LTL)	22	0,50	0,32	0,60	0,10

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

General Manager	Rimantas Bakas	20 April 2012
Chief Accountant	Violeta Staškūnienė	20 April 2012

Statements of Comprehensive Income

		Company			
	Notes	2012 I quarter	2011	2011 I quarter	2010
Income					
Sales income	16	175,462	308,622	142,898	305,441
Other operating income	18	363	1,846	335	1,935
Total income		**175,825**	**310,468**	**143,233**	**307,376**
Expenses					
Fuel and heat acquired		(134,343)	(233,756)	(99,709)	(221,932)
Salaries and social security		(5,161)	(21,412)	(4,992)	(19,416)
Depreciation and amortisation	3,4	(3,974)	(15,842)	(3,919)	(15,709)
Repairs and maintenance		(550)	(5,703)	(410)	(4,236)
Write-offs and change in allowance for accounts receivable	5,8	(4,584)	(2,189)	(2,695)	(17,289)
Taxes other than income tax		(1,015)	(4,286)	(1,058)	(4,309)
Electricity		(861)	(2,504)	(870)	(2,546)
Petrašiūnai power plant operator expenses	1	-	-	-	(812)
Materials		(420)	(1,847)	(392)	(1,484)
Maintenance of heating and hot water systems		(128)	(1,026)	(130)	(552)
Water		(302)	(1,156)	(337)	(822)
Change in allowance for inventories	7	-	(999)	-	30
Other expenses	17	(2,863)	(10,541)	(2,864)	(9,360)
Other activities expenses	18	(133)	(677)	(163)	(808)
Total expenses		**(154,333)**	**(301,938)**	**(117,539)**	**(299,245)**
Profit		**21,492**	**8,530**	**25,694**	**8,131**
Finance income	19	426	8,001	540	2,024
Finance costs	20	(563)	(1,869)	(428)	(2,897)
Finance cost, net		**(137)**	**6,132**	**112**	**(873)**
Profit before income tax		**21,355**	**14,662**	**25,806**	**7,258**
Income tax	21		(1,220)	-	(3,521)
Net profit		**21,355**	**13,442**	**25,806**	**3,737**
Total comprehensive income		**21,355**	**13,442**	**25,806**	**3,737**
Profit attributable to the shareholders			13,442		3,737
Basic and diluted earnings per share (LTL)	22	0,50	0,31	0,60	0,09

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

General Manager	Rimantas Bakas	20 April 2012
Chief Accountant	Violeta Staškūnienė	20 April 2012

Statements of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2010		**256,392**	**448**	**-**	**302**	**257,142**
Total comprehensive income		-	-	-	25,822	25,822
Balance as of 31 March 2011		**256,392**	**448**	**-**	**26,124**	**282,964**
Transferred to reserves	10	-	187	3,468	(3,655)	-
Total comprehensive income		-	-	-	(12,282)	(12,282)
Balance as of 31 December 2011		**256,392**	**635**	**3,468**	**10,187**	**270,682**
Total comprehensive income		-	-	-	21,247	21,247
Balance as of 31 March 2012		**256,392**	**635**	**3,468**	**31,434**	**291,929**

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance As of 31 December 2010		**256,392**	**448**	**-**	**3,745**	**260,585**
Total comprehensive income		-	-	-	25,806	25,806
Balance as of 31 March 2011		**256,392**	**448**	**-**	**29,551**	**286,391**
Total comprehensive income		-	-	-	(12,364)	(12,364)
Transferred to reserves	10	-	187	3,468	(3,655)	-
Balance as of 31 December 2011		**256,392**	**635**	**3,468**	**13,532**	**274,027**
Total comprehensive income		-	-	-	21,355	21,355
Balance as of 31 March 2012		**256,392**	**635**	**3,468**	**34,887**	**295,382**

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

General Manager	Rimantas Bakas	20 April 2012
Chief Accountant	Violeta Staškūnienė	20 April 2012

Statements of Cash Flows

	Group		Company	
	2012 I quarter	2011 I quarter	2012 I quarter	2011 I quarter
Cash flows from (to) operating activities				
Net profit	**21,247**	**25,822**	**21,355**	**25,806**
Adjustments for non-cash items:				
Depreciation and amortisation	4,591	4,403	4,560	4,362
Write-offs and change in allowance for accounts receivable	4,583	2,702	4,583	2,702
Interest expenses	427	428	427	428
Change in fair value of derivatives	(30)	(163)	(30)	(163)
Loss (profit) from sale and write-off of property, plant and equipment and impairment loss	6	37	6	37
(Amortisation) of grants (deferred income)	(278)	(215)	(278)	(215)
Change in accruals	(72)	(60)	(72)	(60)
Elimination of other financial and investing activity results	(260)	(377)	(260)	(377)
Total adjustments for non-cash items:	**8,967**	**6,755**	**8,936**	**6,714**
Changes in working capital:				
Decrease in inventories	(137)	(19)	(160)	(19)
(Increase) decrease in prepayments	233	156	226	191
(Increase) in trade receivables	(31,949)	3,203	(32,009)	3,199
(Increase) decrease in other receivables	(11,418)	682	(11,413)	718
Increase in other non-current liabilities	(4)	17	(4)	23
Increase (decrease) in current trade payables and advances received	2,520	(22,855)	2,567	(22,863)
Increase (decrease) in payroll-related liabilities	619	694	598	556
(Decrease) increase in other liabilities to budget	83	(92)	100	(73)
(Decrease) in other current liabilities	23	12	26	68
Total changes in working capital:	**(40,030)**	**(18,202)**	**(40,069)**	**(18,200)**
Net cash flows from operating activities	**(9,816)**	**14,375**	**(9,778)**	**14,320**

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

	Group		Company	
	2012 I quarter	2011 I quarter	2012 I quarter	2011 I quarter
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(2,890)	(2,730)	(2,906)	(2,730)
Proceeds from sale of tangible assets	4	1	4	1
Interest received for overdue accounts receivable	388	355	388	355
Increase in cash flows from non-current accounts receivable	0	-	0	-
Interest received	8	22	8	22
Net cash (used in) investing activities	**(2,490)**	**(2,352)**	**(2,506)**	**(2,352)**
Cash flows from (to) financing activities				
Proceeds from loans	15,310	614	15,310	614
(Repayment) of loans	(2,090)	(10,523)	(2,090)	(10,523)
Interest (paid)	(527)	(451)	(527)	(451)
Financial lease (payments)	(7)	(13)	-	-
Penalties and fines (paid)	(136)	-	(136)	-
Received grants	2,009	329	2,009	329
Net cash flows from (used in) financing activities	**14,559**	**(10,044)**	**14,566**	**(10,031)**
Net (decrease) increase in cash and cash equivalents	**2,253**	**1,979**	**2,282**	**1,937**
Cash and cash equivalents at the beginning of the year	**5,936**	**3,574**	**5,899**	**3,524**
Cash and cash equivalents at the end of the year	**8,189**	**5,553**	**8,181**	**5,461**

(the end)

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

General Manager	Rimantas Bakas		20 April 2012
Chief Accountant	Violeta Staškūnienė		20 April 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:

	As of 31 March 2012		As of 31 December 2011	
	Number of shares owned (unit)	Percentage of ownership (%)	Number of shares owned (unit)	Percentage of ownership (%)
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
	42,731,977	100.00	42,731,977	100.00

All the shares with a par value of LTL 6 each are ordinary shares. The Company did not hold its own shares in 2012 and 2011.

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 valuators 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 valuators under the replacement cost method.

All shares were fully paid As of 31 March 2012 and As of 31 December 2011.

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 March 2012 and 31 December 2011.
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. 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):

Company	Registration address	Share held by the Group	Cost of investment	Loss for the reporting period	Total equity	Main activities
UAB Pastatų Priežiūros Paslaugos	Savanorių Ave. 347, Kaunas	100%	6,518	(109)	5,232	Maintenance of heating systems

As of 31 March 2012 accumulated impairment loss on investment in UAB Pastatų Priežiūros Paslaugos amounted to LTL 1,177 thousand (31 December 2011 - LTL 1,177 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.

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 34 local gas burning boiler-houses in Kaunas.

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.

Total installed heat and electricity generation capacity is 496,11 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 504,86 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.

In the year 2012 the average number of employees at the Group was 629 (640 employees in 2011). In the year 2012 the average number of employees at the Company was 589 (585 employees in 2011).

Strategic Decisions
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. The Group and the Company invested LTL 2,948 and 2,964 thousand in the own property during 2012 (during 2011 – LTL 35,202 and 35,190 thousand).

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 per annum. The price of this project is 118.7 million litas.
The other choice for modemization of Petrašiūnai termofication power plant is to develop 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 this project is the possibility of heat supply to Kaunas city at the optimum price.

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 7 March 2012 the project of implementing rules of procurement order of centrally supplied heat has been presented to the potential independent heat producers in AB Kauno energija. The document has been also presented to the National Control Commission for Prices and Energy. This is the first theoretical document of this kind not only in Lithuania, but also in Europe. Unambiguous regulation would allow competition in heat production sector and for price reduction of heat supplied to the end users.

On 27 January 2012 Lithuanian Energy Institute (LEI) and AB Kauno energija signed an agreement according to which specialists of LEI and AB Kauno energija will create a system of monitoring and analysis of thermo-hydraulic parameters and prevention of breakdowns, 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.

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.

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

<u>Intangible assets acquired separately</u>
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.

<u>Derecognition of intangible assets</u>
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.

<u>Licenses</u>
Amounts paid for licenses are capitalised and then amortised over useful life (3 - 4 years).

<u>Software</u>
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:

	Years
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.

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:

As of 31 March 2012		As of 31 December 2011	
1 EUR	= 3,4528 LTL	1 EUR	= 3.4528 LTL
1 USD	= 2,5896 LTL	1 USD	= 2.6694 LTL
1 GBP	= 4,1232 LTL	1 GBP	= 4.131 LTL

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 valuators 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 valuators 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 March 2012, carrying value of all contribution in-kind amounted to LTL 131,297 thousand (LTL 131,785 thousand – as of 31 December 2011).

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

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 4,632 thousand as of 31 March 2012 (LTL 4,462 thousand as of 31 December 2011) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment for 31 March 2012 amounts to LTL 4,541 thousand and LTL 4,511 thousand, respectively (2011: LTL 17,449 thousand and LTL 17,317 thousand respectively). The amounts of LTL 4.508 thousand and LTL 4.478 thousand (2011: LTL 16,305 thousand and LTL 16,266 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 104,109 thousand were fully depreciated As of 31 March 2012 (LTL 91,102 thousand As of 31 December 2011) but were still in active use.

As of 31 March 2012 and as of 31 December 2011 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 March 2012 property, plant and equipment of the Group and the Company with the net book value of LTL 136,003 thousand (LTL 116,208 thousand As of 31 December 2011) was pledged to banks as a collateral for loans (Note 11).

During the first quarter 2012 the amount of capitalized interest amounted to LTL 58 thousand (LTL 534 thousand in 2011). During the first quarter 2012 the capitalization rate varied from 2.43% to 2.65% (in 2011 – from 3.52% to 5.79%

As of 31 March 2012 the Group and the Company accounted for assets, not yet ready for use, amounting to LTL 693 thousand in the category Equipment and tools (LTL 1,025 thousand As of 31 December 2011).

5. Non-current accounts receivable

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Long-term loans granted to the Company's employees	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% interest rate. In 2011 effect of unwinding of discount amounted to LTL 13 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 March 2012 and As of 31 December 2011 the repayment term of non-current accounts receivable is not yet due and valuation allowance is not determined.

6. Other financial assets

Available-for-sale financial assets are unquoted ordinary shares.

The Management of the Group and the Company evaluated the financial condition of the entity that shares were acquired, and determined impairment loss. As of 31 March 2012 the impairment loss was LTL 338 thousand. Impairment loss is accounted in the Group's and the Company's profit or loss.

7. Inventories

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Technological fuel	3,424	3,430	3,424	3,430
Spare parts	1,350	1,351	1,350	1,351
Materials	1,320	1,175	1,219	1,051
	6,094	5,956	5,993	5,832
Less: impairment of realisable value at the end of the period	(1,210)	(1,210)	(1,210)	(1,210)
Carrying amount of inventories	4,884	4,746	4,783	4,622

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 March 2012 amounted to LTL 1,210 thousand (LTL 1,210 thousand As of 31 December 2011). Changes in the valuation allowance for inventories for the year 2012 and 2011 was listed into change in inventories allowance caption in the Group's and the Company's statement of comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Trade receivables, gross	134,258	102,309	134,231	102,222
Less: impairment of doubtful receivables	(47,898)	(43,315)	(47,898)	(43,315)
	86,360	58,994	86,333	58,907

Change in impairment of doubtful receivables in 2012 and 2011 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:

	Impairment loss
Balance as of 31 December 2010	**41,886**
Additional allowance formed	2,213
Write-off	(784)
Balance As of 31 December 2011	**43,315**
Additional allowance formed	4,583
Write-off	-
Balance As of 31 March 2012	**47,898**

In the year 2011 the Group and the Company wrote off LTL 784 thousand of bad debts. In the year 2011 the Group and the Company also recovered LTL 17 thousand of doubtful receivables, which were written off in the previous periods.
The ageing analysis of the Group's net value of trade receivables as of 31 March 2012 and 31 December 2011 is as follows:

		Trade receivables past due					
	Trade receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2012	49,203	27,155	9,205	706	91	-	86,360
2011	45,908	10,462	1,241	1,072	311	-	58,994

The ageing analysis of the Company's net value of trade receivables as of 31 March 2012 and 31 December 2011 is as follows:

		Trade receivables past due					
	Trade receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2012	49,176	27,155	9,205	706	91	-	86,333
2011	45,821	10,462	1,241	1,072	311	-	58,907

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 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Taxes	4,761	2,660	4,761	2,660
Other receivables	12,740	3,423	12,873	3,561
Less: value impairment of doubtful receivables	(481)	(481)	(481)	(481)
	17,020	**5,602**	**17,153**	**5,740**

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

	Impairment loss
Balance as of 31 December 2010	**719**
Additional allowance formed	6
Write-off	(244)
Balance As of 31 December 2011	**481**
Additional allowance formed	-
Write-off	-
Balance As of 31 March 2012	**481**

As of 31 March 2012 and 31 December 2011 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 March 2012 and 31 December 2011 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	
2012	4,598	7,539	39	20	2	61	12,259
2011	2,765	56	38	20	2	61	2,942

The ageing analysis of the Company's net value of other receivables (excluding taxes) As of 31 March 2012 and 31 December 2011 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	
2012	4,731	7,539	39	20	2	61	12,392
2011	2,903	56	38	20	2	61	3,080

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 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Cash in transit	5,511	3,684	5,511	3,684
Cash at bank	2,656	2,231	2,648	2,195
Cash on hand	22	21	22	20
	8,189	5,936	8,181	5,899

The Group's and the Company's accounts in national currency in banks amounting to LTL 2,030 thousand as of 31 March 2012 (31 December 2011 – LTL 1,433 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

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Non-current borrowings	35,222	32,169	35,222	32,169
Current borrowings				
Current portion of non-current borrowings (except leasing, Note 12)	9,228	11,295	9,228	11,295
Current borrowings (including credit line)	19,999	7,765	19,999	7,765
	29,227	19,060	29,227	19,060
	64,449	51,229	64,449	51,229

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

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
2012	9,228	11,295	9,228	11,295
2013	8,217	8,076	8,217	8,076
2014	8,217	8,076	8,217	8,076
2015	5,362	5,221	5,362	5,221
2016	3,459	3,313	3,459	3,313
2017	1,575	1,351	1,575	1,351
2018	1,004	871	1,004	871
2019	547	414	547	414
2020	456	323	456	323
2021	456	323	456	323
2022	456	323	456	323
2023	456	323	456	323
2024	456	323	456	323
2025	457	324	457	324
2026	456	323	456	323
2027	456	323	456	323
2028	456	323	456	323
2029	456	323	456	323
2030	456	323	456	323
2031	456	323	456	323
2032	456	323	456	323
2033	456	323	456	323
2034	456	324	456	324
	44,450	43,464	44,450	43,464

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

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Current borrowings	1.28	1.73	1.28	1.73
Non-current borrowings	3.50	3.73	3.50	3.73

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

	Group		Company	
	As of 31 March 2012	**As of 31 December 2011**	**As of 31 March 2012**	**As of 31 December 2011**
Currency of the loan:				
EUR	51,131	39,728	51,131	39,728
LTL	13,318	11,501	13,318	11,501
	64,449	51,229	64,449	51,229

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 March 2012 the outstanding balance of the loan amounted to LTL 218 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 1,991 thousand (the equivalent of LTL 6,875 thousand) As of 31 March 2012, of which LTL 1,875 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 March 2012 the outstanding balance of the loan amounted to LTL 3,100 thousand, of which LTL 629 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 March 2012 the outstanding balance of the loan amounted to EUR 458 thousand (the equivalent of LTL 1,582 thousand), of which LTL 296 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 March 2012 the outstanding balance of the loan amounted to EUR 342 thousand (the equivalent of LTL 1,181 thousand), of which LTL 186 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 March 2012 the outstanding balance of the investment credit amounted to EUR 544 thousand (the equivalent of LTL 1,878 thousand), of which LTL 262 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 March 2012 the outstanding balance of the investment credit amounted to EUR 870 thousand (the equivalent of LTL 3,005 thousand), of which LTL 450 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 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 March 2012 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 March 2012 the balance of used loan was EUR 1,547 thousand (the equivalent of LTL 5,341 thousand), of which LTL 902 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 March 2012 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 March 2012 the outstanding balance of the credit amounted to EUR 378 thousand (the equivalent of LTL 1,306 thousand), of which 303 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 March 2012 the outstanding balance of the credit amounted to EUR 1,193 thousand (the equivalent of LTL 4,121 thousand), of which LTL 742 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 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. As of 31 March 2012 the balance of used loan was EUR 731 thousand (the equivalent of LTL 2,526 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 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 March 2012 the limit of overdraft was used in LTL 9,999 thousand. 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 March 2012 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 March 2012 the Group and the Company balances of used credit line was LTL 10,000 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). As of 31 March 2012 the balance of used loan was EUR 133 thousand (the equivalent of LTL 460 thousand), of which LTL 24 thousand are accounted as the current part of long term borrowings in the financial statements of the Group and the Company. 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 March 2012 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:

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Financial lease obligations are accounted for as current	3	10	-	-

13. Grants (deferred income)

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Balance at the beginning of the reporting period	**22,211**	**16,790**	**22,211**	**16,790**
Received during the year	2,009	6,317	2,009	6,317
Amortisation	(278)	(896)	(278)	(896)
Balance at the end of the reporting period	**23,942**	**22,211**	**23,942**	**22,211**

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 March 2012. The project is completed.

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 March 2012. The project is completed.

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 March 2012. The project is completed.

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. As of 31 March 2012 financing in amount of LTL 1,426 thousand has been received. The project is completed.

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 March 2012 financing in amount of LTL 2,526 thousand has been received. The project is completed.

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 Vilijampolė 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:

	Group		Company	
	2012 I quarter	2011	2012 I quarter	2011
Employee benefit liability at the beginning of the year	2,406	1,830	2,406	1,830
Paid	(4)	(143)	(4)	(143)
Formed		719		719
Employee benefit liability at the end of the year	**2,402**	**2,406**	**2,402**	**2,406**
Non-current employee benefit liability	1,672	1,671	1,672	1,671
Current employee benefit liability	730	735	730	735

During the I quarter 2012 year the total amount of the benefit paid to the employees by the Group and the Company amounted to LTL 4 thousand (LTL 143 thousand for the year, ended 31 December 2011) 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:

	As of 31 March 2012	As of 31 December 2011
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 1,991 thousand (the equivalent of LTL 6,875 thousand) as at 31 March 2012 (EUR 2,172 thousand (the equivalent of LTL 7,500 thousand) as at 31 December 2011). Market value of swap agreement as of 31 March 2012 amounted to LTL 303 thousand (LTL 333 thousand As of 31 December 2011). 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:

	Group		Company	
	2012 I quarter	2011	2012 I quarter	2011
Heat energy	173,830	302,842	173,866	302,893
Maintenance of the heating and hot water supply systems of the buildings	178	1,289	130	515
Hot water supply	1,165	3,725	1,165	3,725
Maintenance of manifolds	194	866	194	866
Electric energy	59	568	59	568
Maintenance of hot water meters	48	55	48	55
	175,474	309,345	175,462	308,622

17. Other expenses

	Group		Company	
	2012 I quarter	2011	2012I quarter	2011
Cash collection expenses	775	2,397	775	2,319
Equipment verification and inspection	845	3,084	844	3,073
Debts collection expenses	243	1,171	243	1,171
Consulting expenses	108	760	108	754
Customer bills issue and delivery expenses	114	476	114	476
Communication expenses	51	290	51	267
Employees related expenses	117	296	114	289
Insurance	58	222	55	215
IT maintenance and related services	42	183	38	166
Membership fee	48	275	48	275
Transport expenses	34	169	32	151
Advertising expenses	38	143	37	143
Audit expenses	-	103	-	99
Stationery and post expenses	2	36	1	36
Rent of equipment and machinery	8	37	1	14
Other expenses	369	1,019	402	1,093
	2,852	10,661	2,863	10,541

18. Other activities income and expenses

	Group		Company	
	2012 I quarter	2011	2012 I quarter	2011
Income from other operating activities				
Miscellaneous services	350	1,703	308	1,221
Materials sold	61	511	51	509
Gain from sale of non-current assets	-	6	-	6
Other	11	123	4	110
	422	2,343	363	1,846

Expenses from other operating activities				
Cost of miscellaneous services	(262)	(1,217)	(125)	(564)
Cost of materials sold	(22)	(10)	-	(10)
Write off of non-current assets	(6)	(52)	(6)	(52)
Loss from sale of non-current assets	-	(17)	-	(17)
Other	(2)	(38)	(2)	(34)
	(292)	(1,334)	(133)	(677)

19. Finance income

	Group		Company	
	2012 I quarter	2011	2012 I quarter	2011
Interest from late payment of accounts receivable	388	2,409	388	2,409
Fines	-	5,420	-	5,420
Change in fair value of derivative financial instruments	30	146	30	146
Bank interest	8	22	8	22
Other	-	4	-	4
	426	8,001	426	8,001

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

20. Finance costs

	Group		Company	
	2012 I quarter	2011	2012 I quarter	2011
Interest on bank loans and overdrafts	(427)	(1,467)	(427)	(1,466)
Impairment loss of non-current financial assets	-	(142)	-	(359)
Penalties	(136)	(44)	(136)	(44)
	(563)	(1,653)	(563)	(1,869)

21. Income tax

As of 31 of March 2012 and 31 of December 2011 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 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.

22. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2012	2011	2012	2011
Net profit	21,247	13,540	21,355	13,442
Number of shares (thousand), opening balance	42,732	42,732	42,732	42,732
Number of shares (thousand), closing balance	42,732	42,732	42,732	42,732
Average number of shares (thousand)	42,732	42,732	42,732	42,732
Basic and diluted earnings per share (LTL)	0,50	0,32	0,50	0,31

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

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Individuals	114,983	115,012	114,846	114,807
Other legal entities	2,151	2,153	2,069	2,063
Legal entities financed from municipalities' and state budget	370	374	335	339
	117,504	**117,539**	**117,250**	**117,209**

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

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Individuals	51,345	41,803	51,341	41,799
Other legal entities	10,340	8,278	10,368	8,262
Legal entities financed from municipalities' and state budget	24,675	8,913	24,624	8,846
	86,360	**58,994**	**86,333**	**58,907**

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*):

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
A	1,247	869	1,239	833
A+	1,186	1,264	1,186	1,264
AA-	11	30	11	30
B+	-	-	-	-
Bank with no rating attributed	212	68	212	68
	2,656	**2,231**	**2,648**	**2,195**

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

The Group and the Company do not guarantee obligations of the other parties in 2012 and in 2011.

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 2012 and 2011 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.

	Increase/decrease in basis points	Effect on profit before tax
2012		
LTL	+200	(266)
LTL	-200	266
EUR	+50	(207)
EUR	-50	207
2011		
LTL	+200	(230)
LTL	-200	230
EUR	+50	(168)
EUR	-50	168

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 March 2012 were 1.27 and 1.22 respectively (0.96 and 0.90 as of 31 December 2011). The Company's liquidity and quick ratios as of 31 March 2012 were 1.27 and 1.22, respectively (0.97 and 0.91 as of 31 December 2011).

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

- 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.
- The Company attempts to receive part of investments funds from the EU Structural Funds. Since the year 2009 the Company has submitted 12 projects (50% of the cost of the project, but not more than LTL 6 million). Support agreements for 9 of them are signed as it is described in note 13, 5 projects were submitted in 2011, 2 of them – to Lithuanian Environmental investment fund as it is described in note 1;
- Considering the current situation the Group and the Company started to reduce its 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:

	Group		Company	
	As of 31 March 2012	**As of 31 December 2011**	**As of 31 March 2012**	**As of 31 December 2011**
Amount used	19,999	7,765	19,999	7,765
Amount unused	1	12,235	1	12,235
	20,000	**20,000**	**20,000**	**20,000**

The table below summarises the maturity profile of the Group's financial liabilities as of 31 March 2012 and as of 31 December 2011 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	4,211	26,192	28,338	12,887	71,628
Trade payables	57,492	149	33	-	57,674
Balance As of 31 March 2012	**61,703**	**26,341**	**28,371**	**12,887**	**129,302**

	Less than 3 months	4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,554	18,107	27,468	9,554	57,683
Trade payables	54,192	698	37	-	54,927
Balance As of 31 December 2011	**56,749**	**18,805**	**27,505**	**9,554**	**112,610**

The table below summarises the maturity profile of the Company's financial liabilities. As of 31 March 2012 and as of 31 December 2011 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	4,208	26,192	28,338	12,887	71,625
Trade payables	57,605	149	33	-	57,787
Balance As of 31 March 2012	**61,813**	**26,341**	**28,371**	**12,887**	**129,412**

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

Trade payables

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

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
For heat purchased	47,437	37,885	47,437	37,885
Contractors	5,288	11,035	5,288	11,035
Other suppliers	4,949	6,007	5,062	6,080
	57,674	**54,927**	**57,787**	**55,000**

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 March 2012 the Group and the Company had an LTL 9,475 thousand of overdue trade creditors. As of 31 December 2011 neither the Group nor the Company had overdue trade creditors.

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:

	Group			Company		
	As of 31 March 2012	**As of 31 December 2011**	**As of 31 December 2010**	**As of 31 March 2012**	**As of 31 December 2011**	**As of 31 December 2010**
Cash and bank balances	8,189	5,936	3,574	8,181	5,899	3,524
Loans and receivables	103,423	64,639	77,903	103,529	64,690	77,822
Available-for-sale financial assets	95	95	237	5,436	5,436	5,795
	111,707	**70,670**	**81,714**	**117,146**	**76,025**	**87,141**

Financial liabilities:

	Group			Company		
	As of 31 March 2012	**As of 31 December 2011**	**As of 31 December 2010**	**As of 31 March 2012**	**As of 31 December 2011**	**As of 31 December 2010**
Carried at tair value through profit or loss (FVTPL)	303	333	479	303	333	479
Carried at amortised cost	122,126	106,203	121,565	122,236	106,266	121,517
	122,429	**106,536**	**122,044**	**122,539**	**106,599**	**121,996**

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 year 2012 and year ended 31 December 2011, 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:

	Group		Company	
	As of 31 March 2012	As of 31 December 2011	As of 31 March 2012	As of 31 December 2011
Non-current liabilities (including deferred tax and grants (deferred income))	67,794	63,014	68,463	63,683
Current liabilities	91,820	78,559	91,673	78,359
Liabilities	**159,614**	**141,573**	**160,136**	**142,042**
Equity	**291,929**	**270,682**	**295,382**	**274,027**
Debt* to equity ratio (%)	**54,68**	**52,30**	**54,21**	**51,84**

* 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:

- Economic 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 economic 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 June2003 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. 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. 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. On 23 December, 2011 KTE placed a claim to Lithuanian Court of Appeal in order to discharge a decision of VCAC, also an application to stop prosecution of this decision until the case will be investigated. Lithuanian Court of Appeal has stopped a prosecution of decision of VCAC of 19 December, 2011 by the decision of 12 January, 2012 until Lithuanian Court of Appeal will investigate the civil case in accordance to claim of KTE. The session of Lithuanian Court of Appeal regarding the investigation of the claim is still not appointed.

As of 31 March, 2012 and of 31 December, 2011 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 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 Petrašiūnai power plant territory. The term of lease is 5 years.

On 20 December, 2010 the Company entered into the lease arrangements with UAB ENG for the real estate. Under this lease arrangement the Company leases to UAB ENG Garliava boiler-house for building of heat production equipment. The Company undertakes obligations to procure heat produced in this equipment. The term of lease is 20 years.

Contingent liability araising 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 2012 and 2011 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 2012 and 2011 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:

2012	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	321	25,480	36,125	375
Jurbarkas city municipality	-	1,666	943	-

2011	**Purchases**	**Sales**	**Receivables**	**Payables**
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

The Group's and the Company's As of 31 March 2012 allowance for overdue receivables from entities financed and controlled by municipalities amounted to LTL 8,601 thousand. (as of 31 December 2011 – LTL 6,686 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

In 2012 and 2011 the Company's transactions with the subsidiary and the balances at the end of the year were as follows:

Pastatų priežiūros paslaugos UAB	**Purchases**	**Sales**	**Receivables**	**Payables**
2012	344	43	315	240
2011	1,206	112	299	157

Remuneration of the management and other payments

As at 31 March 2012 and as at 31 December 2011 the Group's and the Company's management team comprised 6 and 4 persons respectively.

	Group		**Company**	
	2012	**2011**	**2012**	**2011**
Key management remuneration	113	523	89	416

	Group		**Company**	
	As of 31 March 2012	**As of 31 December 2011**	**As of 31 March 2012**	**As of 31 Decembe r 2011**
Calculated post-employment benefits	96	70	96	70

In 2012 and 2011 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

Because of changes in Lithuanian heat law the Subsidiary will not be able to render services of supervision and maintenance of heating and hot water supply systems since 1 July, 2012. In that case the reorganization of Subsidiary in the way of detachment was approved by the decision of Company's Management Board of 6 April, 2012.

On 13 April, 2012 media announced that AB "Gazprom" decided to sell its own 99.5% of shares of KTE to company "Clement Power Venture Inc.". On 13 April, 2012 the Company has got an official note confirming the decision of AB "Gazprom" to sell its shares to the smaller shareholder "Clement Power Venture Inc.". In heat purchase agreement signed in 2003 between the Company and KTE the provision that AB "Gazprom" as the main shareholder of KTE must ensure that during the term of agreement, i. e. until 30 March, 2018 it will own the main block of shares and adequate (not less than 51%) number of votes in General meeting of shareholders is approved.

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