



JOINT STOCK COMPANY „KAUNO ENERGIJA“

LIETUVOS BANKAS
Žirmūnų str. 151, LT-09128 Vilnius

2012-01-25 Nr. 20-237

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 JSC „Kauno energija“ approve, that according to our knowledge the JSC „Kauno energija“ interim financial reporting of the 12 months of the year 2011 is prepared according to the International Financial Reporting Standards, generally accredited in European Union, satisfies actuality and correct indicate assets, liabilities, financial position and profit for time period of the enterprise.

ENCLOSING: JSC „Kauno energija“ consolidated and company's financial statements for the 12 months of the year 2011, prepared according to the International Financial Reporting Standards, 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 12 MONTHS OF THE YEAR 2011,
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL
REPORTING STANDARDS, AS ADOPTED
BY THE EUROPEAN UNION

Balance Sheets

		Group		Company	
		As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Notes					
ASSETS					
Non-current assets					
Intangible assets	3	305	626	299	614
Property, plant and equipment					
Land and buildings		27,673	28,654	26,259	27,184
Structures and machinery		283,314	273,796	283,331	273,819
Vehicles		259	466	242	404
Equipment and tools		11,880	5,548	11,813	5,456
Construction in progress and prepayments		13,003	10,181	13,003	10,181
Total property, plant and equipment	4	336,129	318,645	334,648	317,044
Non-current financial assets					
Investments into subsidiaries	1	-	-	5,341	5,558
Non-current accounts receivable	5	43	61	43	61
Other financial assets	6	95	237	95	237
Total non-current financial assets		138	298	5,479	5,856
Total non-current assets		336,572	319,569	340,426	323,514
Current assets					
Inventories and prepayments					
Inventories	7	4,785	5,270	4,661	5,144
Prepayments		429	507	500	598
Total inventories and prepayments		5,214	5,777	5,161	5,742
Current accounts receivable	8				
Trade receivables		58,994	72,245	58,907	71,989
Other receivables		5,580	5,597	5,718	5,772
Total accounts receivable		64,574	77,842	64,625	77,761
Cash and cash equivalents	9	5,937	3,574	5,899	3,524
Total current assets		75,725	87,193	75,685	87,027
Total assets		412,297	406,762	416,111	410,541

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

Balance Sheets (cont'd)

		Group		Company	
		As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Notes					
EQUITY AND LIABILITIES					
Equity					
Share capital	1	256,392	256,392	256,392	256,392
Legal reserve	10	635	448	635	448
Other reserve	10	3,468	-	3,468	-
Retained earnings (deficit)					
Profit for the current year		13,704	4,167	13,606	3,737
Profit (loss) for the prior year		(3,353)	(3,865)	90	8
Total retained earnings (deficit)		10,351	302	13,696	3,745
Total equity		270,846	257,142	274,191	260,585
Liabilities					
Non-current liabilities					
Non-current borrowings	11	32,169	31,811	32,169	31,811
Financial lease obligations	12		10		
Deferred tax liability		6,695	5,551	7,364	6,220
Grants (deferred income)	13	22,211	16,790	22,211	16,790
Employee benefit liability	14	1,824	1,593	1,824	1,593
Other non-current liabilities		191	410	191	410
Total non-current liabilities		63,090	56,165	63,759	56,824
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12	11,305	13,737	11,295	13,703
Current borrowings	11	7,765	15,023	7,765	15,023
Trade payables		54,897	60,981	54,970	60,977
Payroll-related liabilities		1,978	1,938	1,758	1,712
Advances received		953	570	946	571
Taxes payable		102	128	69	73
Derivative financial instruments	15	333	479	333	479
Current portion of employee benefit liability	14	582	237	582	237
Other current liabilities		446	362	443	357
Total current liabilities		78,361	93,455	78,161	93,132
Total liabilities		141,451	149,620	141,920	149,956
Total equity and liabilities		412,297	406,762	416,111	410,541
(the end)					

(the end)

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

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

**Statements of
Comprehensive Income**

		Group IV quarter,		IV quarter,		
	Notes	2011	2011	2010	2010	2009
Operating income						
Sales income	16	108,285	309,345	119,865	306,856	280,411
Other operating income	17	530	2,342	652	2,202	1,114
Total operating income		108,815	311,687	120,517	309,058	281,525
Operating expenses						
Fuel and heat purchased		(82,358)	(233,756)	(84,503)	(221,932)	(197,698)
Salaries and social security	14	(6,267)	(22,334)	(5,265)	(20,608)	(23,236)
Raw materials		(533)	(1,962)	(511)	(1,674)	(1,758)
Taxes other than income tax		(1,224)	(4,310)	(1,457)	(4,350)	(4,238)
Electricity		(667)	(2,515)	(729)	(2,558)	(2,558)
Depreciation and amortisation	3,4	(3,896)	(15,888)	(3,875)	(15,788)	(16,688)
Repairs and maintenance		(1,948)	(5,703)	(2,224)	(4,236)	(6,351)
Water		(271)	(1,159)	(309)	(825)	(692)
Change in allowance for accounts receivable	8	707	(2,189)	(14,228)	(17,289)	(6,524)
Change in allowance for inventories	7	(961)	(961)	30	30	433
Petrašiūnai power plant operator expenses	1	-	-	(8)	(812)	(1,925)
Heating and hot water systems maintenance expenses		(197)	(463)	-	-	-
Other expenses		(2,930)	(10,612)	(2,689)	(9,598)	(8,908)
Other operating expenses	17	(375)	(1,334)	(286)	(1,349)	(825)
Total operating expenses		(100,920)	(303,186)	(116,054)	(300,989)	(270,968)
Operating profit		7,895	8,501	4,463	8,069	10,557
Income from financial and investment activity	18	458	8,002	571	2,024	1,576
Expenses from financial and investment activity	19	(567)	(1,655)	(1,401)	(2,405)	(3,611)
Net profit for financial and investment activity		(109)	6,347	(830)	(381)	(2,035)
Profit before tax		7,786	14,848	3,633	7,688	8,522
Income tax		(1,144)	(1,144)	(3,521)	(3,521)	(2,118)
Net profit		6,642	13,704	112	4,167	6,404
Basic earnings per share (LTL)	20	0,16	0,32	0,003	0,10	0,22

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

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

Statements of Comprehensive Income

	Notes	Company IV quarter, 2011	2011	IV quarter, 2010	2010	2009
Operating income						
Sales income	16	108,256	308,622	119,542	305,441	279,548
Other operating income	17	392	1,845	550	1,935	1,164
Total operating income		108,648	310,467	120,092	307,376	280,712
Operating expenses						
Fuel and heat purchased		(82,358)	(233,756)	(84,503)	(221,932)	(197,698)
Salaries and social security	14	(6,101)	(21,412)	(4,924)	(19,416)	(21,418)
Raw materials		(517)	(1,847)	(450)	(1,484)	(1,507)
Taxes other than income tax		(1,213)	(4,284)	(1,438)	(4,309)	(4,177)
Electricity		(663)	(2,503)	(726)	(2,546)	(2,539)
Depreciation and amortisation	3,4	(3,898)	(15,842)	(3,855)	(15,709)	(16,510)
Repairs and maintenance		(1,948)	(5,703)	(2,224)	(4,236)	(6,619)
Water		(271)	(1,156)	(308)	(822)	(686)
Change in allowance for accounts receivable	8	707	(2,189)	(14,228)	(17,289)	(6,524)
Change in allowance for inventories	7	(961)	(961)	30	30	433
Heating and hot water systems supervision	1	(344)	(1,026)	(131)	(552)	(1,141)
Petrašiūnai power plant operator expenses		-	-	(8)	(812)	(1,925)
Other expenses		(2,979)	(10,492)	(2,603)	(9,360)	(8,708)
Other operating expenses	17	(142)	(677)	(246)	(808)	(840)
Total operating expenses		(100,688)	(301,848)	(115,614)	(299,245)	(269,859)
Operating profit		7,960	8,619	4,478	8,131	10,853
Income from financial and investment activity	18	457	8,001	571	2,024	1,576
Expenses from financial and investment activity	19	(783)	(1,870)	(1,895)	(2,897)	(3,606)
Net profit for financial and investment activity		(326)	6,131	(1,324)	(873)	(2,030)
Profit before tax		7,634	14,750	3,154	7,258	8,823
Income tax		(1,144)	(1,144)	(3,521)	(3,521)	(1,895)
Net profit		6,490	13,606	(367)	3,737	6,928
Basic earnings per share (LTL)	20	0,15	0,32	(0,01)	0,09	0,24

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

General Manager

Rimantas Bakas

20 January 2012

Chief Accountant

Violeta Staškūnienė

20 January 2012

Statements of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2009		255,710	233		(61)	255,882
Total comprehensive income (loss)		-	-	-	4,167	4,167
Transferred from reserves	10	-	(233)	-	233	-
Transferred to reserves	10	-	448	-	(448)	-
Payment of dividends	1	-	-	-	(3,589)	(3,589)
Increase in share capital	1	682	-	-		682
Balance as of 31 December 2010		256,392	448	-	302	257,142
Transferred to reserves	10	-	187	3,468	(3,655)	-
Total comprehensive income (loss)		-	-	-	13,704	13,704
Balance as of 31 December 2011		256,392	635	3,468	10,351	270,846

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2009		255,710	-	-	4,045	259,755
Total comprehensive income (loss)		-	-	-	3,737	3,737
Transferred to reserves	10	-	448	-	(448)	-
Payment of dividends	1	-	-	-	(3,589)	(3,589)
Increase in share capital	1	682	-	-	-	682
Balance as of 31 December 2010		256,392	448	-	3,745	260,585
Total comprehensive income (loss)		-	-	-	13,606	13,606
Transferred to reserves	10	-	187	3,468	(3,655)	-
Balance as of 31 December 2011		256,392	635	3,468	13,696	274,191

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

General Manager Rimantas Bakas

20 January 2012

Chief Accountant Violeta Staškūnienė

20 January 2012

Statements of Cash Flows



	Group		Company	
	2011	2010	2011	2010
Cash flows from (to) operating activities				
Net profit	13,704	4,167	13,606	3,737
Adjustments for non-cash items:	15,309	37,444	15,418	37,708
Depreciation and amortisation	17,870	17,345	17,732	17,173
Write-offs and change in allowance for accounts receivable	2,202	17,321	2,202	17,321
Interest expenses	1,467	2,177	1,466	2,175
Change in fair value of derivatives	(146)	(308)	(146)	(308)
Loss (profit) from sale and write-off of property, plant and equipment and impairment loss	205	309	205	309
(Amortisation) of grants (deferred income)	(1,037)	(632)	(1,037)	(632)
Change in allowance for inventories	961	(30)	961	(30)
Change employee benefit liability	719	(362)	719	(362)
Income tax expenses	1144	3521	1144	3521
Change in accruals	(266)	(211)	(234)	(268)
Impairment of investment in subsidiary	-	-	217	495
Elimination of other financial and investing activity results	(7,810)	(1,686)	(7,811)	(1,686)
Changes in working capital:	4,935	(12,902)	4,888	(12,818)
Decrease in inventories	(451)	132	(453)	156
(Increase) decrease in prepayments	78	109	98	212
(Increase) in trade receivables	10,798	(29,611)	10,629	(29,670)
(Increase) decrease in other receivables	262	(794)	299	(670)
Increase in other non-current liabilities	34	3	34	3
Increase (decrease) in current trade payables and advances received	(5,701)	18,587	(5,632)	18,557
Increase (decrease) in payroll-related liabilities	72	126	46	52
(Decrease) increase in other liabilities to budget	(26)	(1,188)	(4)	(1,186)
(Decrease) in other current liabilities	(131)	(266)	(129)	(272)
Net cash flows from operating activities	33,948	28,709	33,912	28,627

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

	Group		Company	
	2011	2010	2011	2010
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(35,156)	(30,156)	(35,144)	(30,144)
Proceeds from sale of tangible assets	35	9	35	9
Penalty interest and fines received	2,409	1,704	2,409	1,704
Penalties received	5,420	-	5,420	-
Increase in cash flows from non-current accounts receivable	24	-	24	4
Interest received	26	12	26	12
Net cash (used in) investing activities	(27,242)	(28,431)	(27,230)	(28,415)
Cash flows from (to) financing activities				
Proceeds from loans	9,336	21,963	9,336	21,963
(Repayment) of loans	(18,644)	(20,925)	(18,644)	(20,925)
Interest (paid)	(1,414)	(2,215)	(1,413)	(2,213)
Financial lease (payments)	(34)	(51)	-	-
Penalties and fines (paid)	(45)	(30)	(44)	(30)
Dividends	-	(3,585)	-	(3,585)
Received grants	6,458	5,008	6,458	5,008
Net cash flows from (used in) financing activities	(4,343)	(165)	(4,307)	218
Net (decrease) increase in cash and cash equivalents	2,363	443	2,375	430
Cash and cash equivalents at the beginning of the year	3,574	3,131	3,524	3,094
Cash and cash equivalents at the end of the year	5,937	3,574	5,899	3,524
				(the end)

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

General Manager	Rimantas Bakas		20 January 2012
Chief Accountant	Violeta Staškūnienė		20 January 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 pl. 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 December 2011		As of 31 December 2010	
	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
	<u>42,731,977</u>	<u>100,00</u>	<u>42,731,977</u>	<u>100,00</u>

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

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

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

The Group and the Company also involved in maintenance of heating systems. On 1 July 2006 on the basis of Kaunas Energy Services Department AB Kauno Energija established the subsidiary UAB Pastatų Priežiūros Paslaugos (hereinafter the Subsidiary). The main activity of the Subsidiary is exploitation and maintenance of building heating network and heating consumption equipment, internal engineering networks and systems as well as building structures. After establishing of subsidiary the employees of the Company working at Kaunas Energy Services Department were dismissed from the Company and hired by Subsidiary. From 1 July 2006 the Company is contracting 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	(217)	5,341	Maintenance of heating systems

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

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 came into force starting 1 of November, 2011. Any expenses, related to supervision of the heat points are not included in a heat price since that date.

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

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

Total installed heat and electricity generation capacity is 496,2.00 MW and 8.75 MW, respectively, out of which 254.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in

Petrašiūnai. 27 MW of heat generation capacity is located in Jurbarkas city. The total Company's power generation capacity is 504,95 MW.

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

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

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

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

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

On 3 November 2010 the College of Kaunas City Council discussed the issue of the cooperation of AB "Kauno energija" and AB "Lietuvos energija" and decided to recommend to the Managing Board of AB "Kauno energija" to start the negotiations with AB "Lietuvos energija" regarding the construction of a new local fuel-fired power plant and the establishment of the new joint venture at the site of the present Petrašiūnai power plant. On 24 November 2010 the Managing Board of AB "Kauno energija" has made a decision N° 2010-33-2 "Regarding establishment of the joint venture with AB "Lietuvos energija".

On 18 August 2011 the negotiations with UAB "Fortum Heat Lietuva" were terminated by the decision N° 2011-22-1 of Company's Managing Board due to the not forthcoming tenders. The decision N° 2010-14-2.2 "Regarding the establishment of negotiations group" of 29 April 2010 and the decision N°2010-21-1 "Regarding the specification of consist of negotiations group, authorized to negotiate with UAB "Fortum Heat Lietuva" of 14 July 2010 regarding establishment of joint venture, and regarding the confirmation of its working regulation" has been recognized as spent.

On 18 August 2011 by the decision N° 2011-22-1 of AB "Kauno energija" Managing Board has been recognized as spent:

- the decision N° 2010-33-2 of 24 November 2010 "Regarding the establishment of joint venture with AB "Lietuvos energija", by which the repartition of the shares and of the ensured votes at the General meeting of shareholders of established joint venture (hereinafter – Project Company) has been decided;
- the decision N° 2011-4-1 of 21 February 2011 "Regarding the modification and addition of decision N° 2010-33-2 of 24 November 2010 of AB "Kauno energija" Managing Board "Regarding establishment of joint venture", by which has been decided that it will be other repartition of the shares and of the ensured votes of the Project Company at the General meeting of shareholders (hereinafter – GMS); to plan in the project of prepared statute of the Project Company, that a qualified majority of votes at GMS of established Project Company, which is necessary in order to make decisions, indicated in part 1 of chapter 28 of the Lithuanian law of Joint-stock companies (hereinafter – AB), must be no less than 3/4 of all the votes of all shareholders taking part in shareholders meeting, and must be no less than 4/5 of all the votes of all shareholders taking part in shareholders meeting when the decisions indicated in part 2 of chapter 28 of the Lithuanian law of Joint-stock companies are made;
- the decision N° 2011-8-1 of 16 March 2011 "Regarding establishment documents of Petrašiūnų energija UAB", by which a further procedures of documents approximation of above mentioned company with representatives of AB "Lietuvos energija" has been assigned to working group, formed for establishment documents of "Petrašiūnų energija" UAB preparation;
- the decision N° 2011-11-1 of 13 April 2011 "Regarding establishment documents of "Petrašiūnų energija" UAB", by which has been decided to correct additionally the project of "Petrašiūnų energija" UAB shareholders' agreement.

Assessing the above mentioned information about the decisions of Kaunas City Council College, unsuccessful negotiations with UAB "Fortum Heat Lietuva" and AB "Lietuvos energija", the decisions of AB "Kauno energija" Managing Board from the period of 2009 - 2011 regarding biofuel usage in Petrašiūnai power plant, the Company's managing Board by its decision N° 2011-22-1 of 18 August 2011 has allowed the administration to start a procedures of the lease of part of the buildings / structures situated at the site of Petrašiūnai power plant in order to attract investors for development of biofuel burned power plant construction project. The sequel of the procedure is described in note 24.

The Group and the Company invested LTL 35,156 thousand in the own property within nine months of the year 2011 (over nine months of the year 2010 – LTL 30,156 thousand).

On 14 of July, 2011 the Kaunas city council approved Company's investment plans for the years 2012 – 2015, according to which investments in amount of LTL 257,74 million are intended to make in Company's assets during the period of the years 2012 – 2015.

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

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

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

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

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

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

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

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

2. Accounting principles

2.1. Application of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

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

2.2. Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter EU).

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.

2.5. Investments in subsidiaries

Investments in subsidiaries in the Company's balance sheet are recognized at cost. The dividend income from the investment is recognized in the profit or loss.

2.6. Intangible assets

Intangible assets acquired separately

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

Derecognition of intangible assets

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

Licenses

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

Software

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

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

2.7. Accounting for emission rights

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

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

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

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

2.8. Property, plant and equipment

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

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

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

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items in property, plant and equipment. Depreciation periods were revised as of 1 September 2008, as further described in Note 2.24.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.10. Financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement" financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, 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.

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.

Financial assets available for sale

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.

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.

De-recognition 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 de-recognition 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 premeasured 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.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 percent of the greater of the present value of the Group's and the Company's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

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. Borrowings

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

Borrowings are classified as current liabilities unless the Group and the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet.

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.

All other borrowing costs are recognized 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. 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. Since there are no instructions reducing earnings per share, there is no difference between the basic and diluted earnings per share.

2.21. 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 cost 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.

Rental income

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

2.22. 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.

2.23. 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.

The applicable rates used for principal currencies were as follows:

<u>As of 31 December 2011</u>		<u>As of 31 December 2010</u>	
1 EUR	= 3,4528 Lt	1 EUR	= 3.4528 Lt
1 USD	= 2,6694 Lt	1 USD	= 2.6099 Lt
1 GBR	= 4,131 Lt	1 GBR	= 4,0494 Lt

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

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

2.24. 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 balance sheet 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.

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

In 2009 for a new shares issue manifolds in Kaunas city were received as a contribution in-kind. Market value of assets estimated upon their transfer by local independent qualified valuers using depreciated replacement costs method amounted to LTL 136 million. Manifolds were accounted by Kaunas city municipality amounted to LTL 131.4 million of balance value as of date of the assignment of the assets (the starting value indicated in assignment act, was equal to LTL 133.6 million).

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

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

Allowances for accounts receivable

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

Litigations

On 17 February 2010 Vilnius Court of Commercial Arbitration investigated the civil case regarding the fulfilment of the investment agreement between the Company and UAB Kauno Termofikacijos Elektrinė (hereinafter - KTE) and passed the ruling to award a fine of LTL 5 420 thousand in favour of the Company. KTE has placed a complaint to Lithuanian Court of Appeal regarding this decision. The Court of Appeal denied this appeal by its ruling from 19 October 2010 and has left the ruling of the Court of Commercial Arbitration unchanged. On 8 of November, 2010 KTE has applied a cassation complaint to the Lithuanian

Supreme Court regarding a repeal of rulings of the Commercial Arbitration court and of the Court of appeal. On 14 of March 2011 the Lithuanian Supreme Court has dismissed a cassation complaint of KTE by its final decision and has left unchanged the decision of Vilnius Commercial Arbitration Court from 17 of February 2010 and the decision of Lithuanian Court of Appeal from 19 of October 2010. The penalty received has been accounted in financial statements of the Group and The Company as an income from financial activity.

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

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

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

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

On 12 August 2010 The Securities commission of the Republic of Lithuania (further – Commission) has made a decision "Regarding the case of breaking the law" and has decided to fine the Company of LTL 50 thousand for breaking the part 4 of chapter 5 of Lithuanian Securities law (further – SL). By this decision the Commission obliged the Company to evaluate the long term assets received as nonmonetary contribution at their true value in accordance with requirements of chapter 24 of 16 IAS "Immovable property, equipment and machinery". The Commission has also obliged the Company to use motivated and reasonably chosen assets evaluation methods, appropriate for this kind of assets and goals. And if there will be estimated, that the Company's financial statements and consolidated financial statements of the year 2009 are not in character with 16 IAS provisions, to correct in retrospect financial statements in accordance to chapter 24 of 16 IAS "Immovable property, equipment and machinery" when the Company's financial statements and consolidated financial statements of the year 2010 will be prepared. The Company has disagreed with this decision of Commission and has placed a complaint to Vilnius regional administrative court. On 24 January

2011 this complaint was rejected by the court. On 7 February 2011 the Company placed an appeal regarding this decision to the Supreme Administrative Court of Lithuania (hereinafter – SACL). On 16 of August, 2011 the court decided to renew the investigation of the case in essence. On 15 of December, 2011 SACL has made a decision, according to which a fine imposed by Commission was lowered to LTL 30 thousand, and in the other part the decision of Vilnius regional administrative court remained unchanged, thus the part of Commission decision regarding revaluation of assets, i. e. to oblige the Company to evaluate the long term assets received as nonmonetary contribution at their true value in accordance with requirements of chapter 24 of 16 IAS “Immovable property, equipment and machinery”. The Commission has also obliged the Company to use motivated and reasonably chosen assets evaluation methods, appropriate for this kind of assets and goals. And if there will be estimated, that the Company's financial statements and consolidated financial statements of the year 2009 are not in character with 16 IAS provisions, to correct in retrospect financial statements in accordance to chapter 24 of 16 IAS “Immovable property, equipment and machinery” when the Company's financial statements and consolidated financial statements of the year 2010 will be prepared. As of date of financial statements 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 2.24 as of date of these statements.

2.25. Indeterminations

Indetermined liabilities are not recognized in financial statements. They are described in financial statements, except those occasions when a probability of losing the resources which give economic benefits is very small.

Indetermined assets are not recognized in financial statements, but it is described in financial statements when it is probable that income or economic benefits will be received.

2.26. Subsequent events

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

2.27. 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.

2.28. 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 LTL 4,462 thousand as of 31 December 2011 (LTL 3,177 thousand as of 31 December 2010) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment for 31 December 2011 amounts to LTL 16,367 thousand and LTL 16,235 thousand, respectively (2010: LTL 16,724 thousand and LTL 16,560 thousand respectively). The amounts of LTL 16,207 thousand and LTL 16,168 thousand (2010: LTL 15,849 thousand and LTL 15,778 thousand respectively) were included into operating expenses in the Group's and the Company's statement of comprehensive income. The remaining amounts were included into other operating expenses caption.

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

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

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

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

The assets leased by the Group under finance lease contracts consist of vehicles:

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Vehicles	-	29	-	-

5. Non-current accounts receivable

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

Long-term loans granted to the employees of the Company for the period from 1997 to 2023 are non-interest bearing. These loans are accounted for at discounted value using 7.26% interest rate.

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

6. Other financial assets

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

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

7. Inventories

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Technological fuel	3,430	3,409	3,430	3,409
Spare parts	1,351	1,211	1,351	1,211
Materials	1,176	861	1,052	735
	5,957	5,481	5,833	5,355
Less: impairment of realisable value at the end of the period	(1,172)	(211)	(1,172)	(211)
Carrying amount of inventories	4,785	5,270	4,661	5,144

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 December 2011 amounted to LTL 1,172 thousand (LTL 211 thousand as of 31 December 2010). Changes in the valuation allowance for inventories for the year 2011 and 2010 was listed into change in inventories allowance caption in the Group's and the Company's statement of comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Trade receivables, gross	101,479	114,131	101,392	113,875
Less: impairment of doubtful receivables	(42,485)	(41,886)	(42,485)	(41,886)
	58,994	72,245	58,907	71,989

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

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

	Impairment loss
Balance as of 31 December 2009	25,177
Additional allowance formed	17,194
Write-off	(485)
Balance as of 31 December 2010	41,886
Additional allowance formed	2,453
Write-off	(1,854)
Balance as of 31 December 2011	42,485

In the year 2011 the Group and the Company wrote off LTL 1,854 thousand of bad debts (in the year 2010 – LTL 485 thousand). the year 2011 the Group and the Company also recovered LTL 13 thousand of doubtful receivables (in 2010 – LTL 32 thousand), which were written off in the previous periods.

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

		Trade receivables past due					Total
	Trade receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2011	45,908	10,462	1,242	1,071	311	-	58,994
2010	60,051	8,991	1,236	1,398	569	-	72,245

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

		Trade receivables past due					Total
	Trade receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2011	45,821	10,462	1,242	1,071	311	-	58,907
2010	59,795	8,991	1,236	1,398	569	-	71,989

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

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

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Taxes	2,660	2,737	2,660	2,737
Other receivables	3,401	3,579	3,539	3,754
Less: value impairment of doubtful receivables	(481)	(719)	(481)	(719)
	5,580	5,597	5,718	5,772

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 2009	592
Additional allowance formed	127
Balance as of 31 December 2010	719
Additional allowance formed	(238)
Balance as of 31 December 2011	481

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

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

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2011	2,743	56	38	20	2	61	2,920
2010	1,850	709	273	20	8	-	2,860

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

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2011	2,881	56	38	20	2	61	3,058
2010	2,025	709	273	20	8	-	3,035

The Group's and the Company's other receivables are non-interest bearing and the terms are usually 30 - 45. According to the management opinion, there are no indications as of the reporting date that the debtors will not meet their payment obligations regarding trade receivables and other receivables that are neither impaired nor past due.

9. Cash and cash equivalents

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Cash in transit	3,684	1,951	3,684	1,951
Cash at bank	2,231	1,592	2,195	1,542
Cash on hand	22	31	20	31
	<u>5,937</u>	<u>3,574</u>	<u>5,899</u>	<u>3,524</u>

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

10. Reserves

Legal and other reserves

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

On 28 April 2009, based on the decision of the shareholders the Company transferred an amount of LTL 2,808 thousand from legal reserve to cover losses of 2008.

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

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

	Group		Company	
	As of 31 December2011	As of 31 December2010	As of 31 December2011	As of 31 December2010
2011		13,703		13,703
2012	11,295	11,174	11,295	11,174
2013	8,076	7,590	8,076	7,590
2014	8,076	7,093	8,076	7,093
2015	5,221	3,471	5,221	3,471
2016	3,428	1,757	3,428	1,757
2017	1,466	726	1,466	726
2018	986		986	
2019	529		529	
2020	438		438	
2021	438		438	
2022	438		438	
2023	438		438	
2024	438		438	
2025	438		438	
2026	438		438	
2027	438		438	
2028	438		438	
2029	438		438	
2030	7		7	
	43,464	45,514	43,464	45,514

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

	Group		Company	
	As of 31	As of 31	As of 31	As of 31
	December 2011	December 2010	December 2011	December 2010
Current borrowings	1,73	3,3	1,73	3,3
Non-current borrowings	3,73	3,3	3,73	3,3

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 17 September, 2010 the Group and the Company signed a long-term credit agreement with Nordea Bank Finland Plc Lithuanian Branch for the amount of EUR 1,625 thousand (the equivalent of LTL 5,611

thousand). The maturity date of the last portion of the loan is 31 May, 2016. As of 31 December 2011 the outstanding balance of the credit amounted to EUR 1,265 thousand (the equivalent of LTL 4,368 thousand), of which LTL 989 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 1-month EUR LIBOR plus 0.7% annual interest rate.

On 4 June 1999 the Group and the Company signed a credit line agreement with AB SEB Bankas for the amount of LTL 7,000 thousand, with the maturity date of 19 July 2009. As of 31 December 2009 the Group and the Company's balances of used credit line was LTL 1,560 thousand. On 19 August 2009 the agreement was prolonged until 19 July 2010. The credit line bears 1-month VILIBOR plus 2.4% annual interest rate.

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

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

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

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

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

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

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

On 11 February 2011 the Group and the Company signed a credit agreement with the AB SEB bank regarding the loan of EUR 1.031 thousand (the equivalent of LTL 3,560 thousand). The maturity date of the

last part of the loan is 10 February 2019. As of 31 December 2011 the balance of used loan was EUR 1,031 thousand (the equivalent of LTL 3,560 thousand), of which LTL 183 thousand are accounted as the current part of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 2.7% annual interest rate.

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

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

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

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

12. Finance lease obligations

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

All finance lease agreements are in EUR. Future minimal lease payments were:

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

13. Grants (deferred income)

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Balance at the beginning of the reporting period	16,790	11,832	16,790	11,832
Received during the year	6,458	5,590	6,458	5,590
Amortisation	(1,037)	(632)	(1,037)	(632)
Balance at the end of the reporting period	22,211	16,790	22,211	16,790

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

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

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

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

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project “The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90)” according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2011 financing in amount of LTL 1,426 thousand has been received.

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

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

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

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of 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 month 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	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Employee benefit liability at the beginning of the year	1,830	2,476	1,830	2,476
Paid	(143)	(284)	(143)	(284)
Formed	719	(362)	719	(362)
Employee benefit liability at the end of the period	2,406	1,830	2,406	1,830
Employee benefit liability accounted as:				
Non-current employee benefit liability	1,824	1,593	1,824	1,593
Current employee benefit liability	582	237	582	237

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

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

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

15. Derivative financial instruments

On 9 April 2009, the Group and the Company concluded an interest rate swap agreement. For the period from 24 August 2009 to 22 August 2014 the Group and the Company set a fixed interest rate at 4.15% for a floating interest rate at 6-month EUR LIBOR. The nominal amount of the transaction was EUR 2,172 thousand (the equivalent of LTL 7,500 thousand) as at 31 December 2011 (EUR 2,896 thousand (the equivalent of LTL 10,000 thousand) as at 31 December 2010). Market value of swap agreement as of 31 December 2011 amounted to LTL 333 thousand (LTL 479 thousand as of 31 December 2010).

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	
	2011	2010	2011	2010
Heat energy	302,852	302,546	302,903	302,602
Maintenance of the heating and hot water supply systems of the buildings	1,289	2,037	515	566
Hot water supply	3,714	1,485	3,714	1,485
Maintenance of manifolds	866	439	866	439
Electric energy	568	349	568	349
Maintenance of the hot water accounting devices	56	-	56	-
	<u>309,345</u>	<u>306,856</u>	<u>308,622</u>	<u>305,441</u>

17. Other activities income and expenses

	Group		Company	
	2011	2010	2011	2010
Income from other operating activities				
Miscellaneous services	1,703	1,785	1,221	1,530
Materials sold	511	377	509	377
Gain from sale of non-current assets	6	6	6	6
Other	122	34	109	22
	<u>2,342</u>	<u>2,202</u>	<u>1,845</u>	<u>1,935</u>
Expenses from other operating activities				
Cost of miscellaneous services	(1,217)	(1,180)	(564)	(645)
Cost of materials sold	(10)	(29)	(10)	(29)
Write off of non-current assets	(52)	(119)	(52)	(119)
Loss from sale of non-current assets	(17)	-	(17)	-
Other	(38)	(21)	(34)	(15)
	<u>(1,334)</u>	<u>(1,349)</u>	<u>(677)</u>	<u>(808)</u>

18. Finance income

	Group		Company	
	2011	2010	2011	2010
Interest from late payment of accounts receivable	2,409	1,704	2,409	1,704
Bank interest	22	2	22	2
Penalties	5,420		5,420	
Change in fair value of derivative financial instruments	146	308	146	308
Other	5	10	4	10
	<u>8,002</u>	<u>2,024</u>	<u>8,001</u>	<u>2,024</u>

19. Finance costs

	Group		Company	
	2011	2010	2011	2010
Interest on bank loans and overdrafts	(1,467)	(2,177)	(1,466)	(2,175)
Impairment loss of non-current financial assets	(142)	(196)	(359)	(691)
Penalties	(45)	(30)	(44)	(30)
Other	(1)	(2)	(1)	(1)
	<u>(1,655)</u>	<u>(2,405)</u>	<u>(1,870)</u>	<u>(2,897)</u>

20. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2011	2010	2011	2010
Net profit	13,704	4,167	13,606	3,737
Number of shares (thousand), opening balance	42,732	42,618	42,732	42,618
Number of shares (thousand), closing balance	42,732	42,732	42,732	42,732
Average number of shares (thousand)	42,732	42,706	42,732	42,706
Basic and diluted earnings per share (LTL)	0,32	0,10	0,32	0,09

21. 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

	31 December 2011		31 December 2010	
	Group	Company	Group	Company
Citizens	115,012	114,807	115,093	114,929
Other	2,153	2,063	2,130	2,028
Municipalities and other government instit.	374	339	362	325
	<u>117,539</u>	<u>117,209</u>	<u>117,585</u>	<u>117,282</u>

Considering trade and other accounts receivables, the terms of which is still not expired and their depreciation 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*):

	31 December 2011		31 December 2010	
	Group	Company	Group	Company
A	869	833	1,420	1,370
A+	1,264	1,264	100	100
AA-	30	30	3	3
B+	-	-	7	7
-	68	68	62	62
	<u>2,231</u>	<u>2,195</u>	<u>1,592</u>	<u>1,542</u>

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

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

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

Interest rate risk

All of Group's and the Company's borrowings are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2010 and 2009 to manage variable rate risk the Company has entered into interest rate swap agreements, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts as described in Note 15, calculated by the reference to an agreed upon notional principal amount.

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

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

Liquidity risk

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

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

- The price effective from 1 December 2008 and the price effective from 1 June 2009 include costs for fuel and heat energy purchased that were actually incurred during the previous period but not yet covered. From 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 (50% of the cost of the project, but not more than LTL 6 million). The Company has submitted 9 projects. Support agreements for all of them has been signed as it is described in notes 13;
- Non-priority investments are suspended;
- Considering the current situation the Group and the Company started reduce expenses: the Public Institution "Organizacijų vertinimo agentūra" (Agency of Assessment of Organizations) accomplished an assessment of the Company's management administration and activity.
- the plan of reducing production and supply losses is being currently implemented;
- The analysis of cash flows are done regularly, fulfilment of finance needs is planned and organized.

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

	Less than 3 months	up to one year	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,554	18,107	27,579	8,839	57,079
Trade payables	54,162	698	37	-	54,897
Balance As of 31 December 2011	56,716	18,805	27,616	8,839	111,976

	Less than 3 months	up to one year	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	11,054	19,196	31,073	2,525	63,848
Trade payables	60,524	454	3	-	60,981
Balance As of 31 December 2010	71,578	19,650	31,076	2,525	124,829

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

	Less than 3 months	up to one year	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,549	18,102	27,579	8,839	57,069
Trade payables	54,235	698	37	-	54,970
Balance As of 31 December 2011	56,784	18,800	27,616	8,839	112,039

	Less than 3 months	up to one year	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	11,045	19,170	31,063	2,525	63,803
Trade payables	60,520	454	3	-	60,977
Balance As of 31 December 2010	71,565	19,624	31,066	2,525	124,780

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

Monetary assets and liabilities denominated in local and foreign currencies as of 31 December 2011 were as follows (stated in LTL):

	Group		Company	
	Assets	Liabilities	Assets	Liabilities
LTL	70,550	71,369	70,563	71,175
EUR	4	39,810	4	39,810
	70,554	111,179	70,567	110,985

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.

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 and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2011 and 31 December 2010, except for increase in share capital paid by contributions in kind as disclosed in Note 1.

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

The Group and the Company monitor capital using debt to equity ratio. Capital includes ordinary shares, reserves and 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 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Non-current liabilities (including deferred tax and grants (deferred income))	63,090	56,165	63,759	56,824
Current liabilities	78,361	93,455	78,161	93,132
Liabilities	141,451	149,620	141,920	149,956
Equity	270,846	257,142	274,191	260,585
Debt* to equity ratio (%)	52,23	58,19	51,76	57,55

* 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:

- Economy 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 economy recession that reduces the income of heat consumers,
- The cycle of activity,
- Environmental requirements.

22. Commitments and contingencies

On 30 June 2003 the Investment agreement between the Company and KTE was signed. As KTE fails to fulfil obligations assumed with regard to the amount of investments in due time and according to this agreement KTE is committed to pay to the Company a fine of LTL 17,7 million of the amount of unimplemented investments, the parties initiated negotiations with the purpose of amending the investment agreement and the term of investments. As at 31 of December, 2009 an agreement acceptable to both parties regarding the amendment of the investment agreement was not reached. The dispute over the amount of LTL 17.7 million is being solved in the Arbitration Court at the Association International Chamber of Commerce – Lithuania. The decision adopted in these proceedings is described in Note 2.24.

23. Related parties transactions

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

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

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

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

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

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

2011	Purchases	Sales	Receivables	Payables
"Pastatų priežiūros paslaugos" UAB	1,206	112	299	157

2010	Purchases	Sales	Receivables	Payables
"Pastatų priežiūros paslaugos" UAB	1,247	133	308	80

Remuneration of the management and other payments

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

	Group		Company	
	2011	2010	2011	2010
Key management remuneration	523	450	416	350
	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Calculated post-employment benefits	70	53	70	53

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

24. Post balance sheet events

On 10 of January 2012 Minister of Energy of the Republic of Lithuania Arvydas Sekmokas has visited Company's Petrašiūnai power plant. Minister has been interested in possibilities of building a new bio-fuel burned power plant together with AB "Lietuvos energija", in demand of investments in bio-fuel projects as well as Kaunas needs in heat production capacities. AB "Kauno energija" is going to install up to 44 MW biomass burned boiler herewith 16 MW steam turbine. The price of the whole project could reach from 260 up to 270 million litas. The point of it is the possibility of heat supply to Kaunas city at the optimum price. It is intended to get a part of these investments from Structural funds of the European Union. In minister's opinion, the Government of the Republic of Lithuania as the shareholder of AB "Lietuvos energija" would encourage the collaboration of her own company with AB "Kauno energija", but Kaunas municipality must decide first regarding this possible collaboration.