



**AB KAUNO ENERGIJA CONSOLIDATED ANNUAL REPORT
FOR THE FIRST HALF OF THE YEAR 2012**



Translation note

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

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

Following Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we hereby confirm that, to the best of our knowledge, the Consolidated Annual Report reviewed by auditors and the audited Set of Consolidated Financial Statements for the 1st half of the year 2012 of AB Kauno Energija (hereinafter referred to as the Company or the Issuer) prepared in accordance with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and all the consolidated companies, and that the Consolidated Annual Report for the 1st half of the year 2012 contains a fair disclosure of business development and overview of activities, the state of the Company and the consolidated companies together with the description of exposure to key risks and uncertainties.

General Manager of AB Kauno Energija

Rimantas Bakas

Deputy Chief Accountant of AB Kauno Energija

Valerija Stankūnienė

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1. Reporting period of the Consolidated Annual Report

Reporting period for which the Consolidated Annual Report of AB Kauno Energija has been prepared is the 1st half of the year 2012.

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

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

The main data about the Company:

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

The main data about the subsidiary:

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

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

The nature of core activities of the Group is production and services. AB Kauno Energija is the parent Company of the Group. The Company produces and sells heat energy to consumers in Kaunas and Jurbarkas cities and in part of Kaunas administrative districts (Akademija borough, Ežerėlis bor., Domeikava village, Garliava bor., Girionys vil., Neveronys vil., Raudondvaris vil.) (hereinafter referred to as the Kaunas region). Since 1 May 2010 the Company supplies hot water (carry out hot domestic water supplier activities) for part of multifamily residential buildings in Kaunas and Jurbarkas cities and Kaunas region (in June 2012 the number of houses reached 145, including – 3 in Kaunas region and 5 in Jurbarkas) (hereinafter in text the supplies of heat and hot domestic water referred to as the heat). The revenue from hot water supply operations amounts to 1 percent of Company's sales revenue. In addition, the Company produces electric energy in small quantities in Kaunas city and Kaunas region and the steam in Kaunas city. The Group and the Company carry out supervision of indoor heat and (or) hot water supply systems, maintenance of heating substation facilities (the expenses of which are covered since 1 November 2011 from the Company's profit according to the law), repairs of buildings and constructions, repairs of heating substations and other heating facilities, provides rental services of transport and premises, and other services to individuals and legal entities in relation to the supervision and maintenance of heat economy. The Group and the Company are



engaged in licensed activity in accordance with the licenses held. As the new Law on Change and Addition of the Articles 2, 3, 20, 22, 28, 31, 32 of Law on Heat No XI-1608 came into force on the 29th of September, 2011, according to article 7 “any expenses, related to the indoor heating (including heat point equipment) and hot water systems cannot be included into the heat and hot water prices”. Starting from the 1st of November, 2011 the expenses of maintenance and repair of heat point equipment are not counted in heat selling price according to the law.

Starting from the 1st of July, 2012 “heat supplier or persons related with heat supplier with labour relations, or supplying goods or services to the heat supplier, or producers of fuel used in heat production or of the record equipment used in heat supply or other operations, also persons who are involved in business of wholesale or retail sales of fuel used for heat production or persons who belong to the group of economy subjects together with above mentioned persons according to the Law on Competition cannot be a supervisors (operators) of heat and hot water supply system of building” following part 2 of chapter 20 of this law in blocks of flats. This restriction is not applied for inhabited localities where population according to the data of Lithuanian Department of Statistics is less than 50 000.

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

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

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

As of 30th of June, 2012 the 20,031,977 of Issuer's ordinary registered shares (twenty million thirty one thousand nine hundred seventy seven) (VP ISIN code LT0000123010) with total nominal value equal to LTL 120,191,862 (one hundred and twenty million one hundred ninety one thousand eight hundred sixty two) were included into NASDAQ OMX Vilnius Stock Exchange Baltic secondary trade list.

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

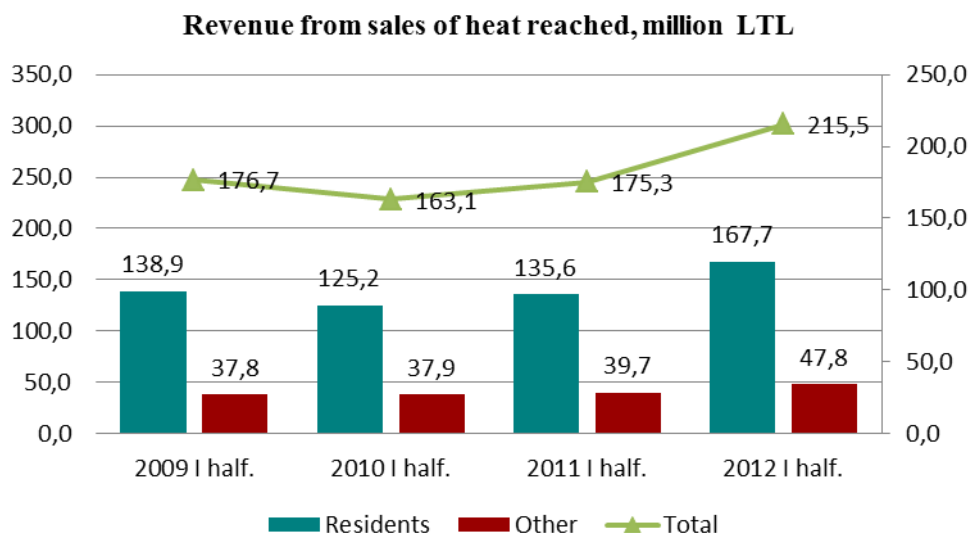
In the 1st half of the year 2012 the Group and the Company earned LTL 9,959 thousand and LTL 9,971 thousand profit (after tax), respectively. The Group's and the Company's income from the main activity amounted to LTL 216,997 thousand and LTL 216,938 thousand, respectively. The major part of income was generated from sales of heat: the Group's – 99.32 %, and the Company's – 99.35 %.

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

In the 1st half of the year 2012 the Company's revenue from sales of heat reached LTL 215,526 thousand, comparing to the 1st half of the year 2011, it increased by 22.9 % (Chart 1).



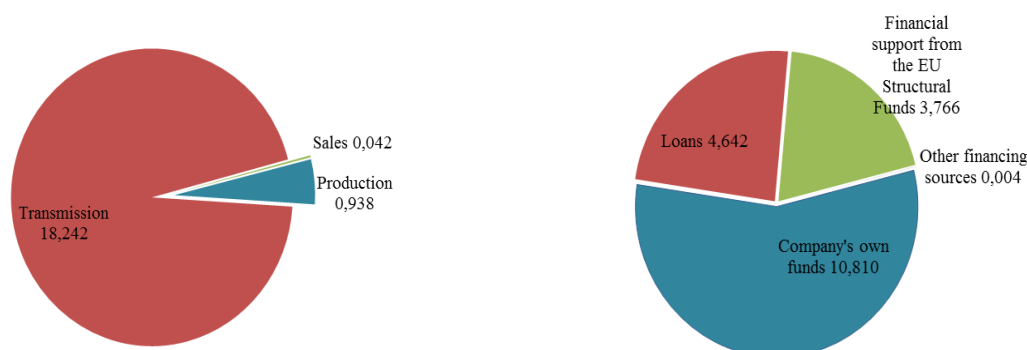
Chart 1



During the 1st half of the year 2012 the Company invested LTL 19,222 million (funds from other sources are among them, i.e. LTL 4,642 million represent loans of commercial banks, LTL 3,766 million represent financial support from the European Union Structural Funds). The Company's investments are illustrated in Chart 2.

Chart 2

Fulfilment of consentaneous investments according to the trends and sources, LTL million



The project “Modernization of Žaliakalnis main pipeline (4Ž) of Kaunas city integrated network” pursued using support of structural funds of European Union has been completed in the 1st half of the year 2012 (the amount of support received was LTL 2.5 million).

Information on distribution of the number of AB Kauno Energija heat consumers in accordance with groups and on size of market, as well as information about description of external risk factors, economical factors, political factors, social factors, technical – technological factors, ecological factors has not been changed from the information published in Consolidated Annual Report of AB Kauno Energija for the year 2011.

Detailed information about the Company's income from heat sales of the 1st half of the year 2012 is presented in 16 note of explanatory letter of Company's and Consolidated compendium of financial statements for the 1st half of the year 2012, and the information on the acquisitions of tangible and intangible assets is presented in the cash flow part of investment activity of the cash flow statement.



Repayment of bank loans: Detailed information is presented in AB Kauno Energija Consolidated and the Parent Company's financial statements for the 1st half of the year 2012, Note 11. The Group and the Company repays loans to banks in due time.

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

The comparison of financial ratios for the 1st half of the year 2012 with the ones for 2011 is presented in Table 1 below.

Table 1

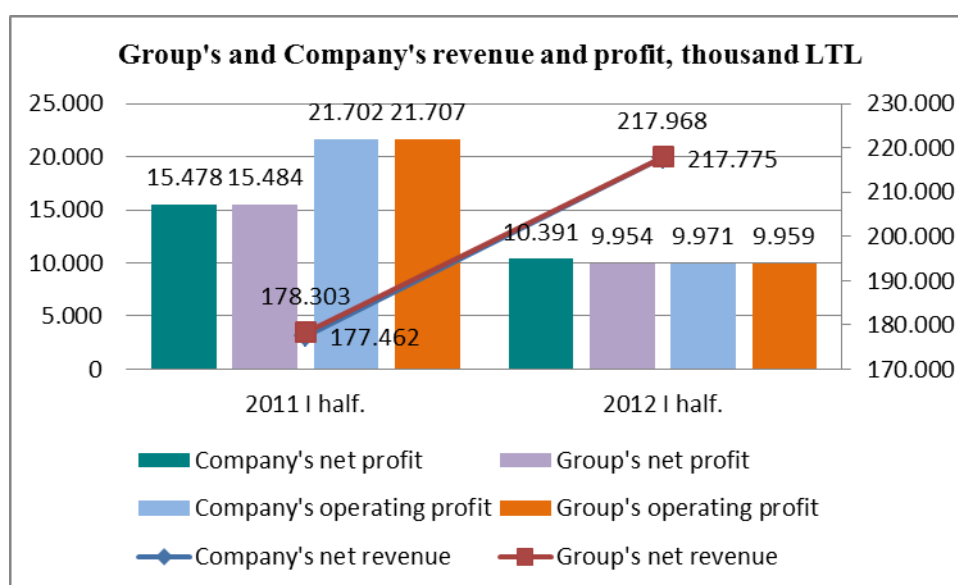
| No. | Financial ratios | Company 2011 | Group 2011 | Company 1 st half 2012 | Group 1 st half 2012 |
|------|---|--------------|------------|-----------------------------------|---------------------------------|
| 1 | Net profitability, % (net profit /sales and services)*100 | 4,4 | 4,4 | 4,6 | 4,6 |
| 2 | Return on tangible assets, % (net profit/average value of tangible assets)*100 | 4,1 | 4,1 | 2,9 | 3,0 |
| 3 | Debt ratio (liabilities /assets) | 0,34 | 0,34 | 0,33 | 0,33 |
| 4 | Debt-to-equity ratio (liabilities / equity) | 0,5 | 0,5 | 0,5 | 0,5 |
| 5 | General liquidity ratio (short-term assets /short-term liabilities) | 0,97 | 0,96 | 0,87 | 0,87 |
| 6 | Asset turnover ratio (sales and services/ assets) | 0,74 | 0,75 | 0,53 | 0,54 |
| 7 | EBITDA (earnings before interest, taxes, depreciation and amortization) LTL thousand | 33.009 | 33.246 | 19.418 | 19.441 |
| 8 | Gross profit margin (gross profit/sales and services)*100 | 2,4 | 2,4 | 4,5 | 4,5 |
| 9 | Return on equity (ROE) % (net profit/average equity)*100 | 5,0 | 5,1 | 3,6 | 3,8 |
| 10 | Return on assets (ROA) % (net profit/ average assets)*100 | 3,3 | 3,3 | 2,4 | 2,5 |
| 11 | Quick ratio((short-term assets-inventory)/short-term liabilities) | 0,91 | 0,90 | 0,80 | 0,80 |
| 12 | Cash ratio (cash in hand and at bank / short-term liabilities) | 0,08 | 0,08 | 0,06 | 0,06 |
| 13 | Net earnings per share (net profit/average weighted number of shares in issue) | 0,31 | 0,32 | 0,23 | 0,23 |
| 14 | Net profit, LTL thousand | 13.442 | 13.540 | 9.971 | 9.959 |
| 15 | Assets, LTL thousand | 416.069 | 412.255 | 406.069 | 402.587 |
| 16 | Equity, LTL thousand | 274.027 | 270.682 | 273.315 | 269.958 |
| 17 | Equity per share, LTL | 6,4 | 6,3 | 6,4 | 6,3 |
| 18 | Revenue from sales, LTL thousand | 308.622 | 309.345 | 216.938 | 216.997 |
| 18.1 | Heat energy | 302.893 | 302.842 | 213.725 | 213.687 |
| 18.2 | Electric energy | 568 | 568 | 185 | 185 |
| 18.3 | Supervision of indoor heating and hot water supply systems, heating substation facilities | 515 | 1.289 | 252 | 349 |
| 18.4 | Income from emission permits and maintenance of collectors | 866 | 866 | 387 | 387 |
| 18.5 | Income from hot water with cold water price | 3.725 | 3.725 | 2.264 | 2.264 |
| 18.6 | Income from Emission Allowances trading | - | - | - | - |



| | | | | | |
|------|---|---------|---------|---------|---------|
| 18.7 | Income from maintenance of hot water meters | 55 | 55 | 125 | 125 |
| 19 | P/E ratio (the last share market price of the year /(net profit/number of shares at year-end) | 3,84 | 3,82 | 6,66 | 6,67 |
| 20 | Share capital, LTL thousand | 256.392 | 256.392 | 256.392 | 256.392 |
| 21 | Share capital-to-assets ratio | 0,62 | 0,62 | 0,63 | 0,64 |
| 22 | Return on equity (capital) (net profit/ capital and reserves)*100 | 5,2 | 5,2 | 3,8 | 3.8 |

The comparison of the financial results of the Group and the Company for the 1st half of the year 2012 (sales revenue, operating profit, net profit) with those for the 1st half of the year 2011 is presented in Chart 3.

Chart 3



A more detailed analysis of the Group's and the Company's financial results is presented in the Notes to the Financial Statements for the 1st half of the year 2012.

Company's net profit was higher at 54 per cent comparing with the 1st half of the year 2011, because Vilnius Arbitration court decided to adjudge an LTL 5.420 thousand fine in favour of the Company from UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) after investigation of civil case regarding fulfilment of Investment agreement between the Company and KTE in 2011. The fine and the interest received are accounted in financial operations revenue of the Company's financial statements.

Company's heat supply loss remained similar to as of the year 2011 at comparative value, but because of the increase of the price, increased approximately to LTL 7.700 thousand in overall sum of expenses.

Company's profit decreased because of expenses of maintenance (operation) of individual heat point equipment owned by the Company, which are not counted into the heat selling price and are not covered by income following by the Law on Heat.

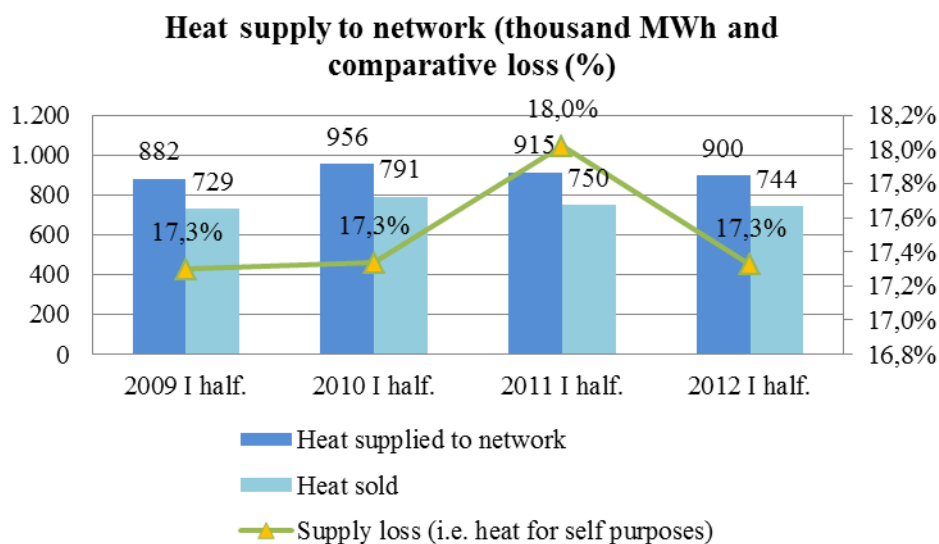
The comparison of non-financial indicators for the 1st half of the year 2012 with the ones for 2011 is presented in Table 2 below.



Table 2

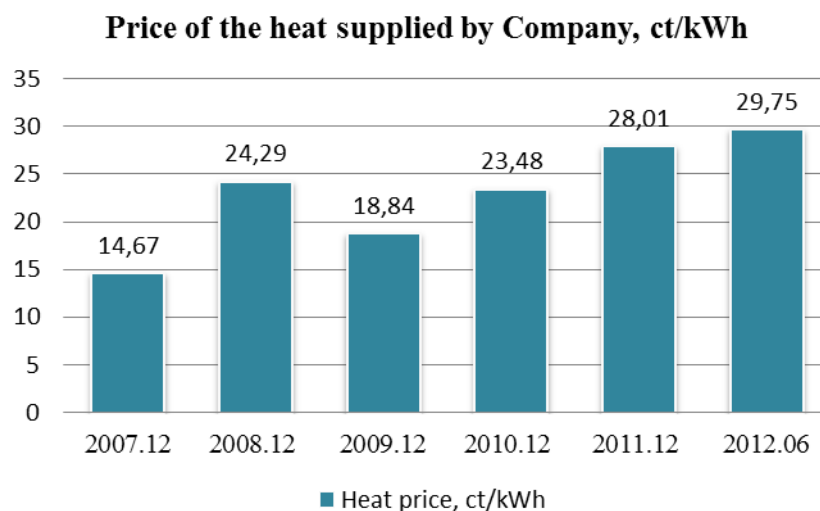
| No. | Non-financial indicators | Measure units | Company 2011 | Group 2011 | Company 1 st half 2012 | Group 1 st half 2012 |
|------|--|----------------|--------------|------------|-----------------------------------|---------------------------------|
| 1. | Energy produced and purchased: from which supplied to the network | thousand MWh | 1,521.8 | 1,521.8 | 900,4 | 900,4 |
| 1.1. | Heat energy | thousand MWh | 1,519.8 | 1,519.8 | 899,8 | 899,8 |
| 1.2. | Electric energy | thousand MWh | 2.0 | 2.0 | 0,6 | 0,6 |
| 2. | Energy sold | thousand MWh | 1,233.9 | 1,233.7 | 744,5 | 744,4 |
| 2.1. | Heat energy | thousand MWh | 1,231.9 | 1,231.7 | 743,9 | 743,8 |
| 2.2. | Electric energy | thousand MWh | 2.0 | 2.0 | 0,6 | 0,6 |
| 3. | Heat supply networks reconstructed | m | 8,990 | 8,990 | 2,338 | 2,338 |
| 4. | Heat supply networks newly constructed | m | 3,170 | 3,170 | 0 | 0 |
| 5 | Maintenance of indoor heating and hot water supply systems (area maintained) | m ² | 198,786 | 398,520 | 178.173 | 376.738 |

Chart 4



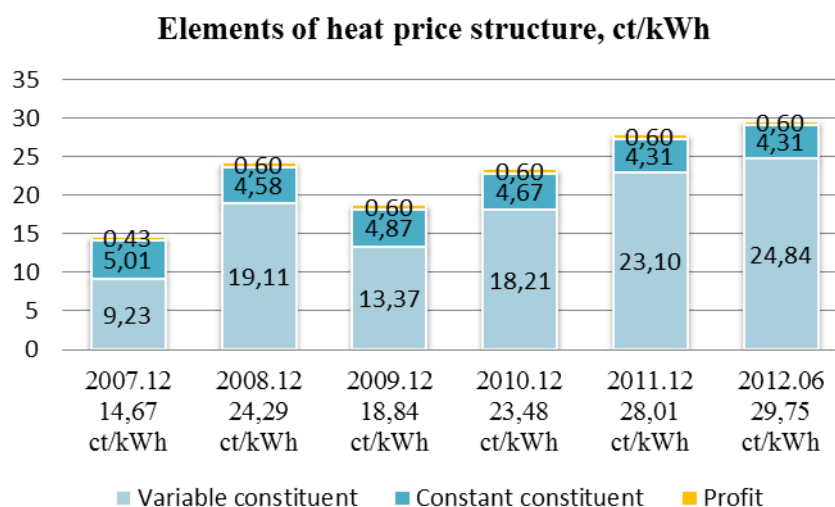
The dynamics of the Company's heat prices during the period from the year 2007 to the 1st half of the year 2012 is presented in Chart 5.

Chart 5



Elements of the heat price structure during the period from the year 2007 to the 1st half of the year 2012 are presented in Chart 6.

Chart 6



The average price of heat purchased by the Company in the 1st half of the year 2012 compared to the year 2011 increased by 3.97 ct/kWh (25.7%) and was amounted to 19.40 ct/kWh.

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

All main financial data has been presented in the financial statements and notes for the 1st half of the year 2012.

Internal control over consolidated financial statements. When preparing its consolidated financial statements, the Company combines the financial statements of the Company and its subsidiary line-by-line,



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

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

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

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

9. Significant events after the end of the period

On 5th of July, 2012 the Supervisory Board of the Company discussing 1st issue of agenda of the meeting No 2012-5 "Information on the issue of the sale of shares of UAB Kauno Termofikacijos Elektrinė" approved in essence the sale of the shares of UAB Kauno Termofikacijos Elektrinė to Clement Power Venture Inc., reaching the optimum for AB Kauno Energija from this sale and determined the main guidelines for negotiations.

The Managing Board of AB Kauno Energija decided to approve the sale of all the shares of UAB Kauno Termofikacijos Elektrinė owned by OAO Gazprom to Clement Power Venture Inc., at the meeting which has been held on 10th of July, 2012, coordinating change of conditions of agreements signed with UAB Kauno Termofikacijos Elektrinė and reaching the optimum for AB Kauno Energija from this sale.

By the initiative of the main shareholder of the Company – Kaunas city municipality and by the decision of the Managing Board of 24th of July, 2012 the extraordinary general meeting of shareholders of the Company has been convened on 17th of August, 2012. The issue "Regarding AB Kauno Energija permission for OAO Gazprom to transfer shares of UAB Kauno Termofikacijos Elektrinė and to exempt from obligations terms of undertakings agreement" will be discussed.

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

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

The major part of investments planned in the year 2012 for the equipment of bio-fuel cogeneration power plants in Inkaras and Noreikiškės boiler-houses and for reconstruction of biomass burned boiler in Petrašiūnai power plant was transposed to the year 2013. Corrected investment plan for the year 2012 was approved on 12th of July, 2012 in Kaunas city council.

Significant funds are appropriated for the modernisation and repair of heat supply networks. After the Company signed the agreements on financial support from European Union Structural Funds in 2011, the following projects were started to implement in the 1st half of the year 2012: (1) "Modernization of Kaunas city integrated network Dainava main (1T)". The total value of investment amounts to LTL 3.432 million, the EU's financial support contracted for LTL 1.560 million; (2) "Modernization of Pramonė main (1Ž)". The project value amounts to LTL 4.859 million, the EU's financial support contracted for LTL 2.00 million.

Beyond above-mentioned projects, further implementation of Company's investment program continues in 2012. It involves: further modernization of boiler-houses owned by the Company, automation of production process, mounting of condensing economizers; reconstruction of heat supply networks, replacement of heat meters, repairs of underground collectors and other important works. The implementation of these measures



will allow to reduce heat production, transmission and selling losses and to perform optimization of heat supply to the consumers.

Implementing the provisions of National Renewable Energy Development Strategy action plan, and seeking to implement key objectives of the Company and attitudes of National Energy Strategy related with heat sources and heat supply network security technical requirements, which guarantee the quality of heat supply to consumers, the applications for the projects "Installation of bio-fuel cogeneration power plant in Inkaras boiler house" and "Biomass burning boiler with up to 44 MW heat with 16 MW power steam turbine projection and reconstruction in Petrašiūnai Power Plant" were prepared according to the measure of Operational Programme for Promotion of Cohesion "The use of renewable energy sources for energy production". The financing for these projects has been accepted at the meeting N° 14 of the Committee of Projects Selection of Ministry of Economy of the Republic of Lithuania on 16th of July, 2012 (support in amount of LTL 6 million has been assigned for each project, order of Minister of Economy of the Republic of Lithuania of the 24th of July, 2012, No 4-740). Consultations with AB Lietuvos Energija regarding corporate implementation of reconstruction project of Petrašiūnai power plant are in progress.

The new applications for support from Lithuanian Environmental Investment Fund were prepared in the 1st half of the year 2012 under the measure "Installation of bio-fuel boilers at the capacity from 500 kW to 5 MW for central heat supply in municipalities with the population less than 100 thousand". Financing under these applications has been allocated on 30th of May, 2012 by the order of Minister of Environment of Lithuania No D1-461. The support will be used for the projects "The reconstruction of Ežerėlis boiler-house by installing a bio-fuel powered boiler at the capacity of 3.5 MW" (support allocated is LTL 1.791 million), "The reconstruction of Noreikiškės boiler-house by installing a bio-fuel powered boiler at the capacity of 4 MW" (support allocated is LTL 2.299 million).

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

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

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

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

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



Commission for Prices and Energy. In accordance with these projects the applications regarding partial financing were prepared and presented to the Lithuanian Business Support Agency in 2011

In 2010 a Petrašiūnai Power Plant Business Plan has been prepared by Kaunas University of Technology. In 2012 this plan has been renewed. In accordance with this plan a biomass burned boiler with up to 44 MW heat and with 16 MW power steam turbine is planned to equip. By burning wood it would not be necessary to use a Greenhouse Gas Emission Allowances and only this amounts approximately to LTL 1 million per year. The power of electric generator would be used and a big amount of "green" energy would be produced and it would create assumptions for heat prices reducing.

Agreement regarding fulfilment of the project of implementation of methodology of general security of heat network signed with Lithuanian Institute of Energetics in 2012.

Following provisions of Law on Heat of the Republic of Lithuania and establishing conditions for competition development in heat production sector AB Kauno Energija initiated and accomplished study named "Preparation of regulations of centrally supplied heat purchasing order implementation (hereinafter – The Code of Heat Network), in which actual and prospective requirements of connection of independent heat producers to the centrally supplied heat system and principles, ways and processes of heat selling and purchasing are described in detail. It's also proposed what to implement seeking a transparent and streamlined trade with independent heat producers. Principles, provisions and concepts of heat market organizational structure, technological regulations of functioning of centrally supplied heat system, order of heat energy trade, regulations of centrally supplied heat system services and payment, regulations of development of centrally supplied heat systems, regulations of reserves accumulation and usage, functioning of centrally supplied heat system in cases of emergency and repair, resolving of contentions are detailed. The document is discussed in Kaunas city municipality at the moment.

On the 22nd of June, 2012 the Management Board of the Company decided to approve signing of agreement with UAB VS Energolink and Kaunas University of Technology on implementation of the project "Integration and effective usage of renewable energy production equipment in low and medium output heat and electricity production, centrally supplied heat sector boiler-houses".

Other information on Company's research and development has been unchanged from this published in AB Kauno Energija consolidated annual report for the year 2011.

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

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

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

All relevant information on this issue is presented in Notes 2.11, 23, 24 to the financial statements for the 1st half of the year 2012.

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

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

At the end of 30th of June, 2012 the Company's branch office Jurbarko Šilumos Tinklai had 36 employees.



On 1st of July, 2006 the Company's subsidiary undertaking UAB Pastatų Priežiūros Paslaugos was registered at address: Savanorių ave. 347, 49423 Kaunas - 43, company code 300580563.

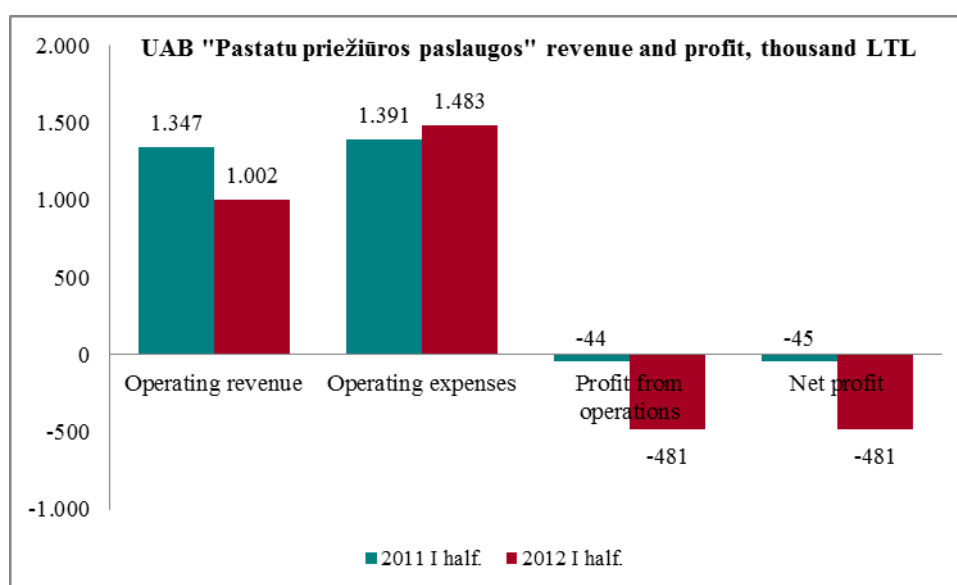
On 28th of May, 2012 AB Kauno Energija, the only shareholder of UAB Pastatų Priežiūros Paslaugos decided to reduce authorized share capital of UAB Pastatų Priežiūros Paslaugos to LTL 4,915,400 (four million nine hundred fifteen thousand and four hundred litas), by withdrawing loss accumulated until 30th of April, 2012 in UAB Pastatų Priežiūros Paslaugos balance and by nullifying 16,026 (sixteen thousand and twenty six) ordinary registered shares at the nominal value of LTL 100 (one hundred litas) each. On 13th of June, 2012 the reduced authorized share capital of UAB Pastatų Priežiūros Paslaugos in amount of LTL 4,915,000 has been registered and it is divided into 49,150 ordinary registered shares at the nominal value of LTL 100 each. The Company owns 49,150 ordinary registered shares of UAB Pastatų Priežiūros Paslaugos.

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

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

Comparison of financial figures of the 1st half of the year 2012 of UAB Pastatų Priežiūros Paslaugos (operations revenue, profit from operations, net profit) with figures of the 1st half of the year 2011 is presented in Chart 7.

Chart 7



As the law of change and addition of the Law on heat economy articles 2, 3, 20, 22, 28, and 31 the main point of it is to separate the maintenance of indoors heating and hot water systems from heat production and transmission came into force, AB Kauno Energija intends to separate activities of UAB Pastatų Priežiūros Paslaugos (decision of Management Board of AB Kauno Energija No 2012-6-2 of the 4th of April, 2012 “Regarding reorganization of UAB Pastatų Priežiūros Paslaugos in way of separation”).

As at 30th of June, 2012 the Company's subsidiary had 38 employees.

15. Structure of authorized share capital

As of 30th of June, 2012 the registered authorized capital is LTL 256,391,862 (Two hundred and fifty six million three hundred and ninety one thousand eight hundred sixty-two).

The Issuer's share capital structure by type of shares is presented in Table 3.



Table 3

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

16. Data on shares issued by the Issuer

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

No restrictions exist in respect of transfer of securities.

16.1. The main *characteristics of shares issued for public traded securities* (30 June 2012).

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

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

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

Trading history of the Company's securities is presented in Table 4.

Table 4

| Trading history data | 2008 | 2009 | 2010 | 2011 | 2012 1 st half |
|-------------------------------------|-------------|--------------|-------------|-------------|------------------------------|
| Open (litas/euro) | 3.50/1.014 | 2.00/0.579 | 2.45/0.710 | 2.072/0.600 | 1.951/0.565 |
| Highest (litas/euro) | 3.80/1.101 | 2.65/0.768 | 3.18/0.921 | 2.659/0.770 | 1,951/0.565 |
| Lowest (litas/euro) | 1.70/0.492 | 1.41/0.408 | 1.903/0.551 | 1.105/0.320 | 1.433/0.415 |
| Last (litas/euro) | 2.00/0.579 | 2.40/0.695 | 2.072/0.600 | 1.209/0.350 | 1.554/0.450 |
| Traded , units | 82,775 | 92,418 | 77,729 | 90,239 | 76,787 |
| Turnover million (litas/euro) | 0.26/0.08 | 0.19/0.05 | 0.2/0.06 | 0.18/0.05 | 0.13/0.04 |
| Capitalization million (litas/euro) | 37.94/10.90 | 102.28/29.62 | 41.5/12.02 | 24.21/7.01 | 31.12/9.01 |



Historical data on share prices (in euros) and turnovers during 2008 to the 1st half of the year 2012 is illustrated in Chart 8.

Chart 8



Comparison of AB Kauno Energija share price with OMX Vilnius and OMX Baltic Benchmark GI indexes in the sector is presented in Chart 9.

Chart 9

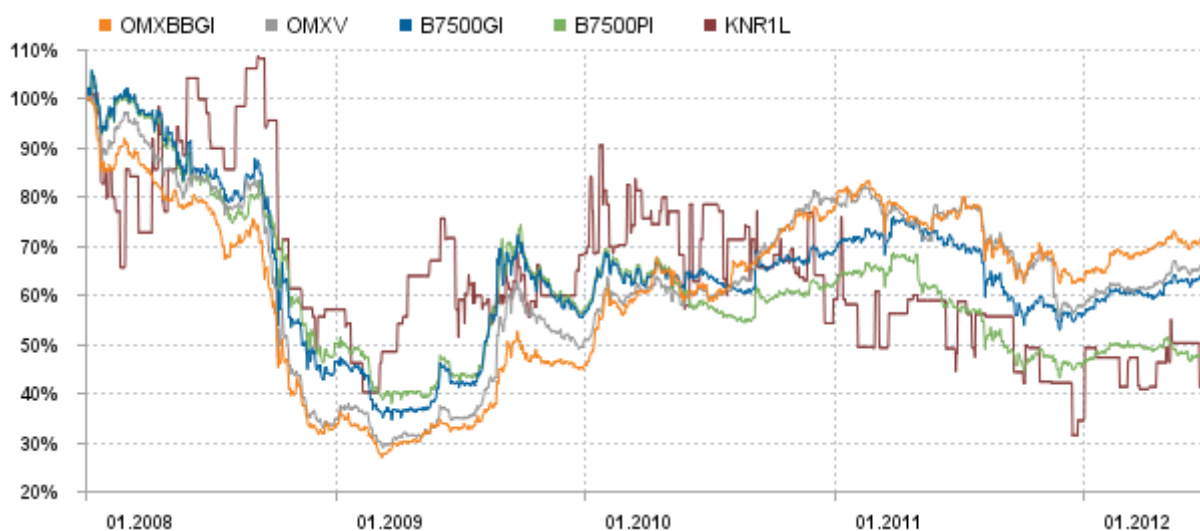





Chart 9 data:

| Index/Equity | 01.01.2008 | 30.06.2012 | +/- % |
|--------------------------|------------|------------|--------|
| —OMX Baltic Benchmark GI | 684.91 | 492.43 | -28.10 |
| —OMX Vilnius | 514.23 | 339.89 | -33.90 |



| Index/Equity | 01.01.2008 | 30.06.2012 | +/- % |
|---|------------|------------|--------|
|  B7500GI Utilities | 1,437.41 | 920.71 | -35.95 |
|  B7500PI Utilities | 1,751.90 | 844.33 | -51.80 |
|  KNR1L | 1.01 EUR | 0.45 EUR | -55.61 |

17. Information on the Issuer's shareholders

As of 30th of June, 2012 the total number of shareholders of AB Kauno Energija was 370.

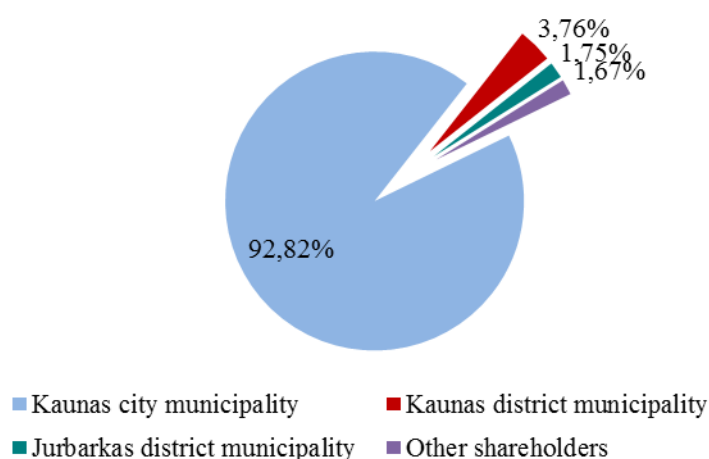
The Issuer's shareholders, whose ownership interest as at 30 June 2012 exceeded 5% of the Company's authorized share capital (42,731,977 ordinary registered shares) registered on 26 March 2010, are listed in Table 7 with additional data illustrated in Table 5 and Chart 10.

Table 5

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

Chart 10

Shareholders structure as at 30 June 2012



17.1. The shareholders, whose ownership interest as of 30th of June, 2012 exceeded 5% of the Company's shares (20,031,977 ordinary registered shares) issued for public trading (registration No. A01031430; VP ISIN code – LT0000123010), are listed in Table 6.

Table 6

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

17.2. The shareholders, whose ownership interest as at 30th of June, 2012 exceeded 5% of the Company's shares (22,700,000 ordinary registered shares) issued for non-public trading (VP ISIN code – LT0000128407), are listed in Table 7.

Table 7

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

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

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

In 2010 Issuer's shareholders received dividends. Earnings per share (dividend rate) – LTL 0,084, total dividends – LTL 3,589,486 (three million five hundred eighty nine thousand four hundred eighty six).

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

On 30th of April, 2012 the General meeting of the Issuer shareholders made a decision to pay dividends from the 2011 year profit in amount of LTL 10.683 thousand, i. e. a 25 cents per share. Dividends were started to pay in the end of June, 2012, after the permissions under signed credit agreements from credit institutions were received. The unpaid part of dividends as of 30th of June, 2012 is amounted to LTL 54 thousand and it is accounted in the article of other short-term payables and liabilities.

18. Employees

As of 30th of June, 2012 the Group had 625 employees. The change in the number of employees during of 1st half of the year 2012 is illustrated in Table 8.



Table 8

| The actual number of employees | Company 31 12 2011 | Group 31 12 2011 | Company 30 06 2012 | Group 30 06 2012 |
|--------------------------------|-----------------------|---------------------|-----------------------|---------------------|
| Total: | 583 | 628 | 587 | 625 |
| Including: managers | 4 | 6 | 4 | 6 |
| specialists | 310 | 325 | 313 | 326 |
| workers | 269 | 297 | 270 | 293 |

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

Table 9

| No. | Education level | Company 31 12 2011 | Group 31 12 2011 | Company 30 06 2012 | Group 30 06 2012 |
|-----|------------------------|-----------------------|---------------------|-----------------------|---------------------|
| 1 | Secondary (unfinished) | 9 | 11 | 9 | 10 |
| 2 | Secondary | 219 | 245 | 219 | 239 |
| 3 | Post-secondary | 92 | 98 | 84 | 90 |
| 4 | Higher | 263 | 274 | 275 | 286 |
| | Total: | 583 | 628 | 587 | 625 |

Average relative number of employees and average monthly salary (including taxes at the end of 1st half of the year 2012)

Table 10

| No. | Employees | Company | Group |
|------|--|---------|---------|
| 1.1. | Average relative number of managers | 4 | 6 |
| 1.2. | Average monthly salary of managers | 7,496.0 | 6,371.8 |
| 2.1. | Average relative number of specialists | 293.7 | 304.3 |
| 2.2. | Average monthly salary of specialists | 2,753.0 | 2,748.7 |
| 3.1. | Average relative number of workers | 257.1 | 304.3 |
| 3.2. | Average monthly salary of workers | 1,949.9 | 1,912.0 |

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

Special rights and duties of employees of the Issuer or their part are set forth in collective employment agreement, and did not changed from the information published in AB Kauno Energija Consolidated annual report for the year 2011.

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

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

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



20. Issuer's bodies

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

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

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

The collegiate supervisory body – the Supervisory Board - is elected by the General Meeting of Shareholders in compliance with the procedure set forth in the Lithuanian Law on Companies. The Supervisory Board consists of 7 (seven) Supervisory Board members. The Supervisory Board members are elected for the period of 4 (four) years. The Supervisory Board elects the Chairman of the Supervisory Board from its members. The General Meeting of Shareholders has the right to recall the entire Supervisory Board or its individual members prior to the expiry of their term of office. If the individual members of the Supervisory Board are elected, they are elected only for the current Supervisory Board's term of office.

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

The Supervisory Board approves the rules for the establishment and operation of the audit committee, and elects the members of this committee. Based on the decision of the collegiate supervisory body (the Supervisory Board) dated 31st of March, 2009 the rules for the establishment and operation of the audit committee of AB Kauno Energija were approved. Based on the decision N° 2012-5 of the meeting of Supervisory Board dated 5th of July, 2012 they were recognized as being out of court. The new internal rules of the audit committee of AB Kauno Energija were approved with the same protocol decision. Following the decision of The Securities Commission of the Republic of Lithuania No 1K-18 of 21 August 2008 "Regarding the requirement to audit committees", on 18 August 2011 after the end of term of office of members of audit committee, the following members of audit committee were appointed: Stasė Rožukienė was appointed as the independent member of audit committee, Inga Dragūnienė – senior economist of the Company's Economics and Planning unit and Valerija Stankūnienė – Company's Deputy Chief Accountant.

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



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

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

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

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

Valerija Stankūnienė, deputy chief accountant of the Company. Member of audit committee since 18 August 2011, on 3 January 2012 was re-elected as member of audit committee. Education – university degree, Vilnius University, accountant – economist (1983). Workplaces and positions over the last 10 years: 02-2003—01-2010 – UAB ARISBALTIJA Chief accountant; 02-1995 – 07-2002 – AB Šilkas chief accountant.

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

The members of audit committee perform their activity since 2 January 2012. When implementing its activity Audit committee follows the rules of AB Kauno Energija audit committee formation and activity approved by Company's Supervisory Board on 31 March 2009, which are recognized out of court by the decision of the meeting of Supervisory Board no 2012-5 of the 5th of July, 2012. The new internal rules of Audit committee of AB Kauno Energija were approved by the same protocol decision. Audit committee performs functions indicated in 52 article of Lithuanian Audit law.

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

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

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

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

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

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

Members of 30 June 2012 Supervisory Board:



| Full name | Job position | Beginning of the term of office | End of the term of office |
|---------------------------|----------------------------|---------------------------------|---------------------------|
| Mr. Rytis Šatkauskas | Supervisory Board chairman | 31 December 2011 | 30 April 2015 |
| Mr. Ričardas Juška | Supervisory Board member | 31 December 2011 | 30 April 2015 |
| Mr. Arvydas Garbaravičius | Supervisory Board member | 31 December 2011 | 30 April 2015 |
| Mrs. Edita Gudišauskienė | Supervisory Board member | 31 December 2011 | 30 April 2015 |
| Ms. Orinta Leiputė | Supervisory Board member | 31 December 2011 | 30 April 2015 |
| Mrs. Aušra Ručienė | Supervisory Board member | 31 December 2011 | 30 April 2015 |
| Mr. Gediminas Žukauskas | Supervisory Board member | 31 December 2011 | 30 April 2015 |

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



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

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

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

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



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

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

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



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



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

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

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

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



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

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

As at 30 June 2012, the members of the Company's Management Board were as follows:

| Full name | Job position | Beginning of the term of office | End of the term of office |
|----------------------------|---|---------------------------------|---------------------------|
| Mr. Arvydas Augonis | Management Board chairman | 3 May 2011 | 30 April 2015 |
| Mr. Giedrius Donatas Ašmys | Deputy chairman of the Management Board | 2 January 2012 | 30 April 2015 |
| Mr. Gintaras Čizikas | Management Board member | 3 May 2011 | 30 April 2015 |
| Mr. Jonas Koryzna | Management Board member | 2 January 2012 | 30 April 2015 |
| Mr. Vytautas Mikaila | Management Board member | 2 January 2012 | 30 April 2015 |
| Mr. Vidas Rybelis | Management Board member | 2 January 2012 | 30 April 2015 |
| Mr. Kęstutis Buinevičius | Management Board member | 27 February 2012 | 30 April 2015 |



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

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

LTL 12.6 thousand of salary was paid during the 1st half of the year 2012, no bonuses were paid, nor any assets were transferred or guarantees issued.

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

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

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



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

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

During the reporting period, no remuneration amounts (salary, bonuses) were paid, nor



any assets were transferred or guarantees issued to this member of the Management Board.

Mr. Gintaras Čižikas. Lithuanian Labour Federation, Chairman of Kaunas County Department.

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



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

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

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

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

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

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



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

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

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

Based on the decision of the meeting of Supervisory Board, held on 2nd of January, 2012 the new members of the Management Board Giedrius Donatas Ašmys, Jonas Koryzna, Vytautas Mikaila and Vidas Rybelis were elected instead of recalled Rimantas Bakas, Andrius Stankevičius, Ramūnas Gatautis and Mindaugas Šimkus.

Former members of the Management Board until 2nd of January, 2012:

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



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

During the 1st half of the year 2012 earnings before-tax in amount LTL 69.1 thousand, no bonuses were estimated, nor any assets were transferred or guarantees issued.



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

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

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

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

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



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

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

On 27th of February, 2012 Mr. Kęstutis Buinevičius was elected as the member of the Management Board instead of resigned Ms Zita Zalagėnaitė.

Former members of Management Board of the Company until 2nd of January, 2012:



Ms Zita Zalagėnaitė. UAB Sorestum, Head of Development.

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

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

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

Mr. Rimantas Bakas. General Manager of the Company since 24 November 2008, Doctor of Engineering. Member of Lithuania heating technique engineers association, Member of Board of Kaunas Regional Energy Agency, Member of Lithuanian District Heating Association Board, Member of Lithuanian Energy Institute's the Scientific Board, the chairman of Master's qualification commission in Kaunas University of Technology Thermal and Nuclear Engineering department, the expert approved by World's Energy Council the PET Committee of Lithuania. Member of Management Board of the Company from 3 May 2011 till 2 January 2012. Education: higher, university degree, graduated from Kaunas University of Technology in 1985, industry heat energy engineer. Job positions during the last 10 years were: from October 2001 to February 2003, Lithuanian Bioenergetics and Energy Saving Association, vice-president and executive director; from 1 March 2001 to 1 May 2003 – project manager of Strategy Department at the Company; from 2 May 2003 to 2 January 2006 – senior project manager of Strategy Department at the Company; from 3 January 2006 to 21 November 2008, Head of Strategy Department at the Company.



Mr. Rimantas Bakas, General Manager of Kauno Energija AB is awarded with a letters of thanks of Lithuanian Association of Heat Suppliers (2007), Lithuanian Association of Electricity Energetic (2008), a letter of the World Energy Council Lithuanian Committee (2010) and the medal of Memory of 600 years Jubilee of Kaunas city, the Symbol of Honour of Lithuanian Energetic (2011). He has no shares of the Company, or ownership interest in of other companies.

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

During 1st half of the year 2012 total remuneration estimated for the General Manager and Chief Accountant amounted to LTL 117.5 thousand, average amount per person – LTL 58.75 thousand; no other assets were transferred, no guarantees provided.

21.4. Data on Management Board, manager and chief accountant of UAB Pastatų Priežiūros Paslaugos

As at 30th of June, 2012 the members of Management Board of UAB Pastatų Priežiūros Paslaugos were as follows:

| Full name | Job position | Beginning of the term of office | End of the term of office |
|----------------------------|---|---------------------------------|---------------------------|
| Mr. Giedrius Donatas Ašmys | Management Board chairman | 8 December 2011 | 7 December 2013 |
| Mr. Pranas Paškevičius | Deputy chairman of the Management Board | 25 October 2011 | 24 October 2013 |
| Mr. Vidas Rybelis | Management Board member | 25 October 2011 | 24 October 2013 |

The members of the Management Board of UAB Pastatų Priežiūros Paslaugos are elected for the term of two years.

Saulius Čiupaila has been elected as a member of the Management Board on the 9th of August, 2012 instead of resigned Giedrius Donatas Ašmys.

Vidas Rybelis is the director of UAB Patatų Priežiūros Paslaugos since the 1st of July, 2011. Education: higher, university degree, automation engineer. Work record during the last 10 years and job positions held: from July 2001 to December 2002 – Sales manager of UAB Tobis; from December 2002 to September 2006 – Brand manager of UAB Tobis; from September 2006 to May 2009 – Head of the Sales Group of UAB Tobis; from May 2009 to May 2011 – Brand Development manager of UAB Tobis; from June 2011 to June 2011 – Engineer – designer of AB Kauno Energija;

During the 1st half of the year 2012 earnings before-tax in amount LTL 30.0 thousand. He has no shares of the Company.

During 1st half of the year 2012 total remuneration estimated for the Manager and Chief Accountant amounted to LTL 46.6 thousand, average amount per person – LTL 23.3 thousand; no other assets were transferred, no guarantees provided.

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

None.



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

None.

24. Information on major transactions with related parties

There were no major individual transactions with related parties. Detailed information is presented in Note 25 to the financial statements.

25. Information on compliance with the Governance Code of Companies

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

26. Data on publicly declared information

To comply with the obligation set forth in the applicable legislation regulating the market of securities, the Issuer during the last 6 months declared in public the following information through GlobeNewswire news publication system, which is used to report announcements all over the European Union. This information was also placed on the Issuer's website. All information is available on **NASDAQ OMX Vilnius** website at address <http://www.baltic.omxgroup.com/?id=3304>, and the Issuer's website at address: <http://www.kel.lt/lt/?id=348>.

| Heading of announcement | Category of announcement | Language | Time |
|---|--------------------------------|----------|--------------------|
| Information regarding negotiations with UAB Kauno termofikacijos elektrinė | Notification on material event | En, Lt | 09.08.2012 – 19:23 |
| The activity results of I half of the year 2012 | Notification on material event | En, Lt | 30.07.2012 – 08:38 |
| Convocation and resolutions projects of Extraordinary General meeting of shareholders of Kauno Energija AB | Notification on material event | En, Lt | 25.07.2012 – 13:00 |
| Information regarding approval of selling all the shares of UAB Kauno termofikacijos elektrinė owned by OAO "Gazprom" | Notification on material event | En, Lt | 11.07.2012 – 09:42 |
| Information regarding started payment of dividends to AB "Kauno energija" shareholders | Notification on material event | En, Lt | 27.06.2012 – 16:11 |
| Information regarding payment of dividends of AB "Kauno energija" | Notification on material event | En, Lt | 06.06.2012 – 11:39 |
| Information regarding unpaid dividends as it is stated by the law | Notification on material event | En, Lt | 31.05.2012 – 17:00 |
| Financial statements with the annual report | Annual information | En, Lt | 30.04.2012 – 14:40 |
| Resolutions of the General Meeting of Shareholders of AB "Kauno Energija" | Notification on material event | En, Lt | 30.04.2012 – 14:30 |
| Activity results of the first quarter, 2012 | Notification on material event | En, Lt | 25.04.2012 – 09:17 |
| Concerning reorganization of subsidiary by separation means | Notification on material event | En, Lt | 06.04.2012 – 14:40 |
| General meeting of JSC "Kauno energija" shareholders and decisions' projects | Notification on material event | En, Lt | 06.04.2012 – 08:35 |



| Heading of announcement | Category of announcement | Language | Time |
|---|--------------------------------|----------|--------------------|
| Information on the negotiations with Kauno Termofikacijos Elektrinė UAB | Other information | En, Lt | 29.02.2012 – 15:54 |
| Information on the election of the member of Kauno energija, AB management body | Notification on material event | En, Lt | 28.02.2012 - 15:41 |
| An intermediate unaudited financial statement of 12 months of the year 2011 | Interim information | En, Lt | 25.01.2012 - 16:02 |
| Due to the Company's management Board decision to renew negotiations with Lietuvos Energija, AB | Notification on material event | En, Lt | 24.01.2012 - 16:16 |
| The activity result of the 12 months, 2011 | Notification on material event | En, Lt | 24.01.2012 - 16:07 |
| Information on the election of the members of Kauno energija, AB management bodies | Notification on material event | En, Lt | 02.01.2012 - 15:14 |

General Manager of Kauno Energija, AB

Rimantas Bakas

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

Statements of Financial Position

| | | Group | | Company | |
|--|----|-----------------------|------------------------------|-----------------------|------------------------------|
| | | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Notes | | | | | |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Intangible assets | 3 | 220 | 305 | 218 | 299 |
| Property, plant and equipment | 4 | | | | |
| Land and buildings | | 27,040 | 27,673 | 25,655 | 26,259 |
| Structures and machinery | | 295,130 | 295,319 | 295,144 | 295,336 |
| Vehicles | | 501 | 259 | 527 | 242 |
| Equipment and tools | | 11,780 | 11,880 | 11,718 | 11,813 |
| Construction in progress and prepayments | | 11,711 | 998 | 11,711 | 998 |
| Total property, plant and equipment | | 346,162 | 336,129 | 344,755 | 334,648 |
| Non-current financial assets | | | | | |
| Investments into subsidiary | 1 | - | - | 4,915 | 5,341 |
| Non-current accounts receivable | 5 | 43 | 43 | 43 | 43 |
| Other financial assets | 6 | 95 | 95 | 95 | 95 |
| Total non-current financial assets | | 138 | 138 | 5,053 | 5,479 |
| Total non-current assets | | 346,520 | 336,572 | 350,026 | 340,426 |
| Current assets | | | | | |
| Inventories and prepayments | | | | | |
| Inventories | 7 | 4,727 | 4,746 | 4,631 | 4,622 |
| Prepayments | | 474 | 405 | 552 | 475 |
| Total inventories and prepayments | | 5,201 | 5,151 | 5,183 | 5,097 |
| Current accounts receivable | 8 | | | | |
| Trade receivables | 23 | 37,371 | 58,994 | 37,322 | 58,907 |
| Other receivables | | 9,865 | 5,602 | 9,994 | 5,740 |
| Total accounts receivable | | 47,236 | 64,596 | 47,316 | 64,647 |
| Cash and cash equivalents | 9 | 3,630 | 5,936 | 3,544 | 5,899 |
| Total current assets | | 56,067 | 75,683 | 56,043 | 75,643 |
| Total assets | | 402,587 | 412,255 | 406,069 | 416,069 |


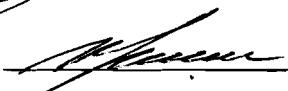
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Statements of Financial Position
(cont'd)

| | | Group | | Company | |
|---|-------|----------------|----------------|----------------|----------------|
| | | As of 30 | As of 31 | As of 30 | As of 31 |
| | | June 2012 | December | June 2012 | December |
| | Notes | | 2011 | | 2011 |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Share capital | 1 | 256,392 | 256,392 | 256,392 | 256,392 |
| Legal reserve | 10 | 1,307 | 635 | 1,307 | 635 |
| Other reserve | 10 | 2,584 | 3,468 | 2,584 | 3,468 |
| Retained earnings (deficit) | | | | | |
| Profit for the current year | | 9,959 | 13,540 | 9,971 | 13,442 |
| Profit (loss) for the prior year | | (284) | (3,353) | 3,061 | 90 |
| Total retained earnings (deficit) | | 9,675 | 10,187 | 13,032 | 13,532 |
| Total equity | | 269,958 | 270,682 | 273,315 | 274,027 |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Non-current borrowings | 11 | 35,319 | 32,169 | 35,319 | 32,169 |
| Financial lease obligations | 12 | 115 | - | 115 | - |
| Deferred tax liability | 21 | 6,771 | 6,771 | 7,440 | 7,440 |
| Grants (deferred income) | 13 | 23,712 | 22,211 | 23,712 | 22,211 |
| Employee benefit liability | 14 | 1,787 | 1,671 | 1,671 | 1,671 |
| Other non-current liabilities | | 396 | 192 | 396 | 192 |
| Total non-current liabilities | | 68,100 | 63,014 | 68,653 | 63,683 |
| Current liabilities | | | | | |
| Current portion of non-current borrowings and financial lease | 11,12 | 5,531 | 11,305 | 5,530 | 11,295 |
| Current borrowings | 11 | 23,934 | 7,765 | 23,934 | 7,765 |
| Trade payables | 23 | 29,592 | 54,927 | 29,609 | 55,000 |
| Payroll-related liabilities | | 2,633 | 1,978 | 2,406 | 1,758 |
| Advances received | | 1,051 | 953 | 1,051 | 946 |
| Taxes payable | | 93 | 102 | 70 | 70 |
| Derivative financial instruments | 15 | 273 | 333 | 273 | 333 |
| Current portion of employee benefit liability | 14 | 895 | 735 | 701 | 735 |
| Other current liabilities | | 527 | 461 | 527 | 457 |
| Total current liabilities | | 64,529 | 78,559 | 64,101 | 78,359 |
| Total liabilities | | 132,629 | 141,573 | 132,754 | 142,042 |
| Total equity and liabilities | | 402,587 | 412,255 | 406,069 | 416,069 |

(the end)


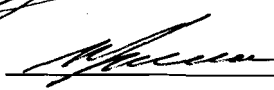
The accompanying notes are an integral part of these financial statements.

| | | | |
|------------------|---------------------|--|--------------|
| General Manager | Rimantas Bakas |  | 23 July 2012 |
| Chief Accountant | Violeta Staškūnienė |  | 23 July 2012 |

Statements of Comprehensive Income

| | | Group | | | | | |
|---|-------|---------------------|------------------|---------------------|------------------|------------------|------------------|
| | Notes | II quarter, 2012 | I half, 2012 | II quarter, 2011 | I half, 2011 | 2011 | 2010 |
| Operating income | | | | | | | |
| Sales income | 16 | 41,523 | 216,997 | 34,094 | 177,323 | 309,345 | 306,856 |
| Other operating income | 18 | 549 | 971 | 575 | 980 | 2,343 | 2,202 |
| Total operating income | | 42,072 | 217,968 | 34,669 | 178,303 | 311,688 | 309,058 |
| Operating expenses | | | | | | | |
| Fuel and heat purchased | | (38,072) | (172,415) | (28,646) | (128,355) | (233,756) | (221,932) |
| Salaries and social security | 14 | (5,625) | (10,922) | (5,461) | (10,719) | (22,334) | (20,608) |
| Depreciation and amortisation | 3,4 | (3,939) | (7,917) | (3,903) | (7,842) | (15,888) | (15,788) |
| Repairs and maintenance | | (581) | (1,131) | (575) | (986) | (5,703) | (4,236) |
| Change in allowance for accounts receivable | 8 | 549 | (4,034) | (833) | (3,528) | (2,189) | (17,289) |
| Taxes other than income tax | | (1,341) | (2,359) | (1,063) | (2,127) | (4,312) | (4,350) |
| Electricity | | (444) | (1,307) | (513) | (1,387) | (2,515) | (2,558) |
| Petrašiūnai power plant operator expenses | 1 | - | - | - | - | - | (812) |
| Materials | | (470) | (903) | (481) | (921) | (1,962) | (1,674) |
| Maintenance of heating and hot water systems | | - | - | - | - | (463) | - |
| Water | | (273) | (576) | (288) | (626) | (1,160) | (825) |
| Change in allowance for inventories | 7 | (119) | (119) | - | - | (999) | 30 |
| Other expenses | 17 | (2,769) | (5,621) | (2,778) | (5,691) | (10,661) | (9,598) |
| Other operating expenses | 18 | (418) | (710) | (354) | (637) | (1,334) | (1,349) |
| Total operating expenses | | (53,502) | (208,014) | (44,895) | (162,819) | (303,276) | (300,989) |
| Operating profit | | (11,430) | 9,954 | (10,226) | 15,484 | 8,412 | 8,069 |
| Income from financial and investment activity | 19 | 620 | 1,046 | 6,503 | 7,043 | 8,001 | 2,024 |
| Expenses from financial and investment activity | 20 | (478) | (1,041) | (392) | (820) | (1,653) | (2,405) |
| Net profit for financial and investment activity | | 142 | 5 | 6,111 | 6,223 | 6,348 | (381) |
| Profit before tax | | (11,288) | 9,959 | (4,115) | 21,707 | 14,760 | 7,688 |
| Income tax | | | | | | (1,220) | (3,521) |
| Net profit | | (11,288) | 9,959 | (4,115) | 21,707 | 13,540 | 4,167 |
| Basic earnings per share (LTL) | 22 | (0,26) | 0,23 | (0,10) | 0,51 | 0,32 | 0,10 |

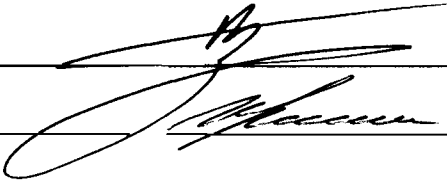
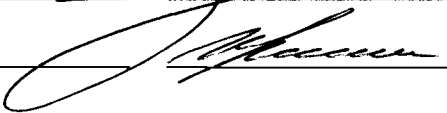
The accompanying notes are an integral part of these financial statements.

| | | | |
|------------------|---------------------|--|--------------|
| General Manager | Rimantas Bakas |  | 23 July 2011 |
| Chief Accountant | Violeta Staškūnienė |  | 23 July 2011 |

Statements of Comprehensive Income

| | | Company | | | | | |
|---------------------------|-----|---------------------|------------------|------------------------|------------------|------------------|------------------|
| | | II quarter, 2012 | I half, 2012 | II quarter, 2011 | I half, 2011 | 2011 | 2010 |
| Notes | | | | | | | |
| Operating income | | | | | | | |
| | 16 | 41,476 | 216,938 | 33,776 | 176,674 | 308,622 | 305,441 |
| | 18 | 474 | 837 | 453 | 788 | 1,846 | 1,935 |
| | | 41,950 | 217,775 | 34,229 | 177,462 | 310,468 | 307,376 |
| Operating expenses | | | | | | | |
| | | (38,072) | (172,415) | (28,646) | (128,355) | (233,756) | (221,932) |
| | 14 | (5,350) | (10,511) | (5,184) | (10,176) | (21,412) | (19,416) |
| | 3,4 | (3,960) | (7,934) | (3,884) | (7,803) | (15,842) | (15,709) |
| | | (581) | (1,131) | (577) | (987) | (5,703) | (4,236) |
| | | | | | | | |
| | 8 | 549 | (4,034) | (833) | (3,528) | (2,189) | (17,289) |
| | | | | | | | |
| | | (1,336) | (2,351) | (1,058) | (2,116) | (4,286) | (4,309) |
| | | (442) | (1,303) | (510) | (1,380) | (2,504) | (2,546) |
| | | | | | | | |
| | 1 | - | - | - | - | - | (812) |
| | | (454) | (874) | (450) | (842) | (1,847) | (1,484) |
| | | | | | | | |
| | | (118) | (246) | (120) | (250) | (1,026) | (552) |
| | | (273) | (575) | (288) | (625) | (1,156) | (822) |
| | | | | | | | |
| | 7 | (119) | (119) | - | - | (999) | 30 |
| | 17 | (2,745) | (5,608) | (2,693) | (5,557) | (10,541) | (9,360) |
| | 18 | (150) | (283) | (202) | (365) | (677) | (808) |
| | | (53,051) | (207,384) | (44,445) | (161,984) | (301,938) | (299,245) |
| | | (11,101) | 10,391 | (10,216) | 15,478 | 8,530 | 8,131 |
| Operating profit | | | | | | | |
| | | | | | | | |
| | 19 | 620 | 1,046 | 6,503 | 7,043 | 8,001 | 2,024 |
| | | | | | | | |
| | 20 | (903) | (1,466) | (391) | (819) | (1,869) | (2,897) |
| | | | | | | | |
| | | (283) | (420) | 6,112 | 6,224 | 6,132 | (873) |
| | | (11,384) | 9,971 | (4,104) | 21,702 | 14,662 | 7,258 |
| Profit before tax | | | | | | | |
| | | | | | | | |
| | | | | | | (1,220) | (3,521) |
| Net profit | | | | | | | |
| | | (11,384) | 9,971 | (4,104) | 21,702 | 13,442 | 3,737 |
| | | | | | | | |
| | 22 | (0,27) | 0,23 | (0,10) | 0,51 | 0,31 | 0,09 |

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


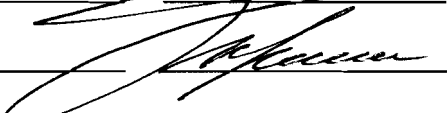
| | | | |
|------------------|---------------------|--|--------------|
| General Manager | Rimantas Bakas |  | 23 July 2011 |
| Chief Accountant | Violeta Staškūnienė |  | 23 July 2011 |

Statements of Changes in Equity

| Group | Notes | Share capital | Legal reserve | Other reserve | Retained earnings (accumulated deficit) | Total |
|---------------------------------------|-------|----------------|---------------|---------------|---|----------------|
| Balance as of 31 December 2010 | | 256,392 | 448 | - | 302 | 257,142 |
| Transferred to reserves | 10 | - | 187 | 3,468 | (3,655) | - |
| Total comprehensive income | | - | - | - | 21,707 | 21,707 |
| Balance as of 30 June 2011 | | 256,392 | 635 | 3,468 | 18,354 | 278,849 |
| Total comprehensive income | | - | - | - | (8,167) | (8,167) |
| Balance as of 31 December 2011 | | 256,392 | 635 | 3,468 | 10,187 | 270,682 |
| Transferred from reserves | 10 | - | - | (3,468) | 3,468 | - |
| Transferred to reserves | 10 | - | 672 | 2,584 | (3,256) | - |
| Dividends | 1 | - | - | - | (10,683) | (10,683) |
| Total comprehensive income | | - | - | - | 9,959 | 9,959 |
| Balance as of 30 June 2012 | | 256,392 | 1,307 | 2,584 | 9,675 | 269,958 |

| Company | Notes | Share capital | Legal reserve | Other reserve | Retained earnings (accumulated deficit) | Total |
|---------------------------------------|-------|----------------|---------------|---------------|---|----------------|
| Balance As of 31 December 2010 | | 256,392 | 448 | - | 3,745 | 260,585 |
| Transferred to reserves | 10 | - | 187 | 3,468 | (3,655) | - |
| Total comprehensive income | | - | - | - | 25,806 | 25,806 |
| Balance as of 30 June 2011 | | 256,392 | 448 | - | 29,551 | 286,391 |
| Total comprehensive income | | - | - | - | (12,364) | (12,364) |
| Balance as of 31 December 2011 | | 256,392 | 635 | 3,468 | 13,532 | 274,027 |
| Transferred from reserves | 10 | - | - | (3,468) | 3,468 | - |
| Transferred to reserves | 10 | - | 672 | 2,584 | (3,256) | - |
| Dividends | 1 | - | - | - | (10,683) | (10,683) |
| Total comprehensive income | | - | - | - | 9,971 | 9,971 |
| Balance as of 30 June 2012 | | 256,392 | 1,307 | 2,584 | 13,032 | 273,315 |

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

| | | | |
|------------------|---------------------|--|--------------|
| General Manager | Rimantas Bakas |  | 23 July 2012 |
| Chief Accountant | Violeta Staškūnienė |  | 23 July 2012 |

Statements of Cash Flows

| | Group | | Company | |
|--|------------------------|------------------------|------------------------|------------------------|
| | 2012 I half | 2011 I half | 2012 I half | 2011 I half |
| Cash flows from (to) operating activities | | | | |
| Net profit | 9,959 | 21,707 | 9,971 | 21,702 |
| Adjustments for non-cash items: | 12,821 | 5,504 | 12,912 | 5,428 |
| Depreciation and amortisation | 9,156 | 8,777 | 9,121 | 8,696 |
| Write-offs and change in allowance for accounts receivable | 4,041 | 3,541 | 4,041 | 3,541 |
| Interest expenses | 897 | 819 | 897 | 819 |
| Change in fair value of derivatives | (60) | (173) | (60) | (173) |
| Loss (profit) from sale and write-off of property, plant and equipment and impairment loss | (79) | 39 | (78) | 39 |
| (Amortisation) of grants (deferred income) | (571) | (432) | (571) | (432) |
| Change in allowance for inventories | 119 | - | 119 | - |
| Change employee benefit liability | 300 | - | - | - |
| Change in accruals | (140) | (197) | (140) | (192) |
| Impairment of investment in subsidiary | - | - | 426 | - |
| Elimination of other financial and investing activity results | (842) | (6,870) | (843) | (6,870) |
| Changes in working capital: | (11,066) | 1,824 | (11,185) | 1,915 |
| Decrease in inventories | (99) | (121) | (127) | (118) |
| (Increase) decrease in prepayments | (69) | (195) | (77) | (176) |
| (Increase) in trade receivables | 17,691 | 43,385 | 17,653 | 43,467 |
| (Increase) decrease in other receivables | (4,372) | (466) | (4,363) | (424) |
| Increase in other non-current liabilities | 116 | 33 | 116 | 33 |
| Increase (decrease) in current trade payables and advances received | (25,237) | (41,241) | (25,286) | (41,242) |
| Increase (decrease) in payroll-related liabilities | 665 | 490 | 648 | 415 |
| (Decrease) increase in other liabilities to budget | (9) | (90) | - | (73) |
| (Decrease) in other current liabilities | 248 | 29 | 251 | 33 |
| Net cash flows from operating activities | 11,714 | 29,035 | 11,698 | 29,045 |


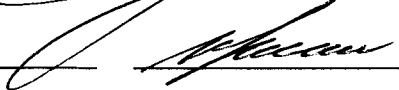
(cont'd on the next page)

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

| | Group | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| | I half | I half | I half | I half |
| Cash flows from (to) the investing activities | | | | |
| (Acquisition) of tangible and intangible assets | (19,036) | (12,257) | (19,078) | (12,257) |
| Proceeds from sale of tangible assets | 153 | 11 | 152 | 11 |
| Interest received for overdue accounts receivable | 975 | 1,440 | 975 | 1,440 |
| Penalties received | - | 5,420 | - | 5,420 |
| Increase in cash flows from non-current accounts receivable | - | (7) | - | (7) |
| Interest received | 11 | 10 | 11 | 10 |
| Net cash (used in) investing activities | (17,897) | (5,383) | (17,940) | (5,383) |
| Cash flows from (to) financing activities | | | | |
| Proceeds from loans | 19,342 | 628 | 19,342 | 628 |
| (Repayment) of loans | (5,840) | (20,461) | (5,840) | (20,461) |
| Interest (paid) | (915) | (828) | (915) | (828) |
| Financial lease (payments) | (13) | (26) | (4) | - |
| Penalties and fines (paid) | (144) | - | (143) | - |
| Dividends | (10,625) | - | (10,625) | - |
| Received grants | 2,072 | 380 | 2,072 | 380 |
| Net cash flows from (used in) financing activities | 3,877 | (20,307) | 3,887 | (20,281) |
| Net (decrease) increase in cash and cash equivalents | (2,306) | 3,345 | (2,355) | 3,381 |
| Cash and cash equivalents at the beginning of the year | 5,936 | 3,574 | 5,899 | 3,524 |
| Cash and cash equivalents at the end of the year | 3,630 | 6,919 | 3,544 | 6,905 |

(the end)

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

| | | | |
|-------------------------|----------------------------|--|---------------------|
| <u>General Manager</u> | <u>Rimantas Bakas</u> |  | <u>23 July 2012</u> |
| <u>Chief Accountant</u> | <u>Violeta Staškūnienė</u> |  | <u>23 July 2012</u> |

Notes to the financial statements

1. General information

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

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

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

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

| | As of 30 June 2012 | | As of 31 December 2011 | |
|---------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| | Number of shares owned (unit) | Percentage of ownership (%) | Number of shares owned (unit) | Percentage of ownership (%) |
| Kaunas city municipality | 39,665,892 | 92.82 | 39,665,892 | 92.82 |
| Kaunas district municipality | 1,606,168 | 3.76 | 1,606,168 | 3.76 |
| Jurbarkas district municipality | 746,405 | 1.75 | 746,405 | 1.75 |
| Other minor shareholders | 713,512 | 1.67 | 713,512 | 1.67 |
| | 42,731,977 | 100.00 | 42,731,977 | 100.00 |

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

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

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

All shares were fully paid As of 30 June 2012 and As of 31 December 2011.

On 30 April 2012 The Annual General Meeting of Shareholders has made a decision to pay LTL 10,683 thousand, i.e. at 25 cents a share in dividends from the profit of the year 2011. The dividends were started to pay in the end of June 2012, as soon as the permissions under credit agreements from credit institutions were received. The unpaid part of dividends amounting to LTL 54 thousand which was not paid without a Company's fault is accounted for in other current liabilities in 30 June 2012.

The Group and the Company also involved in maintenance of heating systems. On 1 July 2006 on the basis of Kaunas Energy Services Department AB Kauno Energija established the subsidiary UAB Pastatų

Priežiūros Paslaugos (hereinafter the Subsidiary). The main activity of the Subsidiary is exploitation and maintenance of building heating network and heating consumption equipment, internal engineering networks and systems as well as building structures. From 1 July 2006 the Company is contracting the Subsidiary for permanent technical maintenance of heating and hot water supply systems.

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

| Company | Registration address | Share held by the Group | Cost of investment | Writing-off cost of investment reducing the capital | Loss for the reporting period | Total equity | Main activities |
|----------------------------------|-----------------------------|--------------------------------|---------------------------|--|--------------------------------------|---------------------|--------------------------------|
| UAB Pastatų Priežiūros Paslaugos | Savanorių Ave. 347, Kaunas | 100% | 6,518 | (1,603) | (55) | 4,860 | Maintenance of heating systems |

As of 30 June 2012 accumulated impairment loss on investment in UAB Pastatų Priežiūros Paslaugos amounted to LTL 1,603 thousand (31 December 2011 - LTL 1,177 thousand) in the Company's profit or loss.

Whereas, according to the changes in the Heating Law, subsidiary will not be able to provide heating and hot water supply systems maintenance services since 1st of July, 2012, reorganization of the subsidiary by way of separation was accepted by the decision of the Company's Board of 6th of April, 2012.

It has been decided by the decision of the meeting of Subsidiary's shareholders of 28th of May, 2012 to reduce authorised capital to LTL 4.915 thousand by withdrawing accumulated loss of LTL 1.603 thousand. The new Articles of Association of Subsidiary were registered on 13th of June, 2012.

Legal Regulations

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

According to the Heating Law of the Republic of Lithuania, the Company's activities are licensed and regulated by the State Price Regulation Commission of Energy Resources (hereinafter the Commission). On 26 February 2004 the Commission granted the Company the heat distribution license. The license has indefinite maturity, but is subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets price cap for the heat supply.

Operational Activity

The Company's generation capacity includes a power plant in Petrašiūnai, 3 district boiler-houses in Kaunas integrated network, 7 regional boiler-houses in Kaunas region, 1 regional boiler-house in Jurbarkas city, 14 isolated networks and 34 local gas burning boiler-houses in Kaunas.

On 21 March 2012 the new bio-fuel powered boiler with condensation economizer with total power of 6.5 MW started to function in AB "Kauno energija" Garliava boiler-house, in Kaunas district. The heat produced in this boiler is supplied to the consumers of Garliava borough. This boiler is one of the first bio-fuel powered devices in Lithuania, the construction of which was financed under an Energy Service Company (ESCO) financing model.

Total installed heat and electricity generation capacity is 496,11 MW and 8.75 MW, respectively, out of which 254.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. 27 MW of heat generation capacity is located in Jurbarkas city. The total Company's power generation capacity is 504,86 MW.

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

In the year 2012 the average number of employees at the Group was 625 (640 employees in 2011). In the year 2012 the average number of employees at the Company was 589 (585 employees in 2011).

Strategic Decisions

On 14 of July, 2011 the Kaunas city council approved Company's investment plans for the years 2012 – 2015, according to which investments in amount of LTL 257.74 million are intended to invest into Company's assets during the period of the years 2012 – 2015. The Group and the Company invested LTL 19,180 and 19,222 thousand in the own property during 2012 (during 2011 – LTL 35,202 and 35,190 thousand).

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

The total amount requested is LTL 17,74 million. The amount of LTL 6 million is requested from EUSF for the project Building of bio-fuel powered cogeneration power plant in Inkaras boiler-house. The amount of LTL 5,74 million is asked from EUSF for the project Building of bio-fuel powered cogeneration power plant in Noreikiškės boiler-house. And for the project "The reconstruction of Petrašiūnai power plant equipping with a new cogeneration bio-fuel power plant" the amount of LTL 6 million is requested. Financing for these projects is requested according to the measure Use of renewable energy sources for energy production of the priority Environment and sustainable development of Operational Programme for Promotion of Cohesion.

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

It is planned, that the electric power of the plant which is intended to build in Company's Inkaras boiler-house would contain 3.5 MW and the heat power – approximately 11.4 MW, underrating the heat produced in condensation economizer. It is planned to produce about 107 GWh of heat energy with this new equipment annually, also rating the heat energy produced in condensation economizer, and approximately 25 GWh of electric energy. Approximately 67 thousand tons of wood would be used for the production of this energy annually. The price of this project is 46.1 million litas.

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

economizer, and approximately 2.7 GWh of electric energy. Approximately 7.26 thousand tons of wood would be used for the production of this energy annually.

It is also planned to build a new cogeneration power plant, operating on a steam turbine basis in the Company's Petrašiūnai power plant. The capacity of produced electric energy could reach 16 MW there, and the capacity of produced heat energy could reach approximately 44 MW. It is planned to produce about 428.3 GWh of heat energy with this new equipment annually, also rating the heat energy produced in condensation economizer, and approximately 116.1 GWh of electric energy. Approximately 257.5 thousand tons of wood would be used for the production of this energy per annum. The price of this project is 118,7 million litas.

The development of the projects is disclosed in note 26.

The other choice for modernization of Petrašiūnai termofication power plant is to develop the united project with AB Lietuvos Energija regarding "bare field" investment at the site of Petrašiūnai power plant by installing up to 50 MW biomass burned boiler herewith 25 MW steam turbine for production of electricity. The price of this project could reach from 260 up to 270 million litas. The point of this project is the possibility of heat supply to Kaunas city at the optimum price.

The Company presented applications to the Lithuanian Environmental Investment Fund (hereinafter - LEIF) regarding the financing of reconstructions of Noreikiškės and Ežerėlis boiler-houses equipping them with bio-fuel powered water boilers. The Company seeks to get a financial support in amount of approximately LTL 4.7 million for the financing of these projects from LEIF. Financing for the projects of Noreikiškės and Ežerėlis boiler-houses in amount of LTL 4.1 million was approved by the orders of Minister of Environment of Lithuania from May, 2012.

Currently the Company has got applications from 10 potential independent heat producers (the total power capacity – 260 MW) regarding the connection to the Company's integrated heat supply network. On 7 March 2012 the project of implementing rules of procurement order of centrally supplied heat has been presented to the potential independent heat producers in AB Kauno energija. The document has been also presented to the National Control Commission for Prices and Energy. This is the first theoretical document of this kind not only in Lithuania, but also in Europe. Unambiguous regulation would allow competition in heat production sector and for price reduction of heat supplied to the end users.

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

2. Accounting principles

2.1. Adoption of new and revised Standards

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

2.2. Statement of Compliance

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

2.3. Basis of the preparation of financial statements

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

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

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

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

2.4. Principles of consolidation

Principles of consolidation

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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

2.5. Investments in subsidiaries

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

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

2.6. Intangible assets

Intangible assets acquired separately

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

Derecognition of intangible assets

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

Licenses

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

Software

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

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

2.7. Accounting for emission rights

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

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

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

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

2.8. Property, plant and equipment

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

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

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

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

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

| | Years |
|--------------------------|--------------|
| Buildings | 7 - 50 |
| Structures and machinery | 5 - 70 |
| Vehicles | 3 - 10 |
| Equipment and tools | 2 - 20 |

Freehold land is not depreciated.

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

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

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

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

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

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

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

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

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

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

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

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

2.10. Financial assets

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

Effective interest rate method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

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

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

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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 re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

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

2.12. Inventories

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

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

2.13. Provisions

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

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

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

2.14. Cash and cash equivalents

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

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

2.15. Employee benefits

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

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

2.16. Borrowing costs

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

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

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

2.17. Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

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

De-recognition of financial liabilities

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

2.18. Leasing

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

The Group and the Company as lessor

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

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

The Group and the Company as lessee

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

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

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

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

2.19. Grants (deferred income)

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

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

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

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

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

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

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

2.20. Income tax

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

2.21. Basic and diluted earnings per share

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

2.22. Revenue recognition

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

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

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

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

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

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

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

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

2.23. Expense recognition

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

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

2.24. Foreign currencies

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

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

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

| <u>As of 30 June 2012</u> | | <u>As of 31 December 2011</u> | |
|---------------------------|--------------|-------------------------------|--------------|
| 1 EUR | = 3.4528 LTL | 1 EUR | = 3.4528 LTL |
| 1 USD | = 2.7624 LTL | 1 USD | = 2.6694 LTL |
| 1 GBP | = 4.3104 LTL | 1 GBP | = 4.131 LTL |

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

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

2.25. Use of estimates in the preparation of financial statements

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

Estimates and assumptions

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

Property, plant and equipment – useful life

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

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

Realisable value of inventory

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

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

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

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

Management has no information available about possible fair value of these non-current assets if they would be evaluated by using other valuation methods. As of 31 of June 2012, carrying value of all contribution in-kind amounted to LTL 131,379 thousand (LTL 131,785 thousand – as of 31 December 2011).

Allowances for accounts receivable

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

Deferred Tax Asset

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

Litigations

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

2.26. Contingencies

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

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

2.27. Subsequent events

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

2.28. Offsetting and comparative figures

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

2.29. Segments

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

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

3. Intangible assets

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

Part of the non-current intangible assets of the Group and the Company with the acquisition cost of LT 4,560 thousand as of 30 June 2012 (LTL 4,462 thousand as of 31 December 2011) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment for 30 June 2012 amounts to LTL 8,486 thousand and LTL 8,484 thousand, respectively (2011: LTL 17,449 thousand and LTL 17,317 thousand respectively). The amounts of LTL 8,407 thousand and LTL 8,405 thousand (2011: LTL 16,305 thousand and LTL 16,266 thousand respectively) were included into operating expenses (under depreciation and amortisation and other expenses lines) in the Group's and the Company's statement of comprehensive income. The remaining amounts were included into other activity expenses.

Part of the property, plant and equipment of the Group and the Company with acquisition cost of LTL 104,523 thousand were fully depreciated As of 30 June 2012 (LTL 91,102 thousand As of 31 December 2011) but were still in active use.

As of 30 June 2012 and as of 31 December 2011 the major part of the Group's and Company's construction in progress consisted of heat supply networks reconstruction and repair works.

As of 30 June 2012 property, plant and equipment of the Group and the Company with the net book value of LTL 138,226 thousand (LTL 116,208 thousand As of 31 December 2011) was pledged to banks as a collateral for loans (Note 11).

During the first half 2012 the amount of capitalized interest amounted to LTL 144 thousand (LTL 534 thousand in 2011). During the first half 2012 the capitalization rate varied from 2.26% to 2.8% (in 2011 – from 3.52% to 5.79%)

As of 30 June 2012 the Group and the Company accounted for assets, not yet ready for use, amounting to LTL 1,242 thousand in the category Equipment and tools (LTL 1,025 thousand As of 31 December 2011).

5. Non-current accounts receivable

| | Group | | Company | |
|--|--------------------|------------------------|--------------------|------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Long-term loans granted to the Company's employees | 43 | 43 | 43 | 43 |

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

As of 30 June 2012 and As of 31 December 2011 the repayment term of non-current accounts receivable is not yet due and valuation allowance is not determined.

6. Other financial assets

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

The Management of the Group and the Company evaluated the financial condition of the entity that shares were acquired, and determined impairment loss. As of 30 June 2012 and As of 31 December 2011 the impairment loss was LTL 338 thousand. Impairment loss is accounted in the Group's and the Company's profit or loss.

7. Inventories

| | Group | | Company | |
|---|-----------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Technological fuel | 3,431 | 3,430 | 3,431 | 3,430 |
| Spare parts | 1,287 | 1,351 | 1,287 | 1,351 |
| Materials | 1,338 | 1,175 | 1,242 | 1,051 |
| | 6,056 | 5,956 | 5,960 | 5,832 |
| Less: impairment of realisable value at the end of the period | (1,329) | (1,210) | (1,329) | (1,210) |
| Carrying amount of inventories | 4,727 | 4,746 | 4,631 | 4,622 |

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 30 June 2012 amounted to LTL 1,329 thousand (LTL 1,210 thousand As of 31 December 2011). Changes in the valuation allowance for inventories for the year 2012 and 2011 was listed into change in inventories allowance caption in the Group's and the Company's statement of comprehensive income.

8. Current accounts receivable

| | Group | | Company | |
|--|-------------------------------|---------------------------------------|-------------------------------|---------------------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Trade receivables, gross | 83,229 | 102,309 | 83,180 | 102,222 |
| Less: impairment of doubtful receivables | (45,858) | (43,315) | (45,858) | (43,315) |
| | 37,371 | 58,994 | 37,322 | 58,907 |

Change in impairment of doubtful receivables in 2012 and 2011 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of comprehensive income.

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

| | Impairment loss |
|---------------------------------------|----------------------------|
| Balance as of 31 December 2010 | 41,886 |
| Additional allowance formed | 2,213 |
| Write-off | (784) |
| Balance As of 31 December 2011 | 43,315 |
| Additional allowance formed | 3,932 |
| Write-off | (1,389) |
| Balance As of 30 June 2012 | 45,858 |

In the first half of the year 2012 the Group and the Company wrote off LTL 1,389 thousand of bad debts (2011 - LTL 784 thousand). In the first half of the year 2012 the Group and the Company also recovered LTL 7 thousand (2011 -LTL 17 thousand) of doubtful receivables, which were written off in the previous periods.

The ageing analysis of the Group's net value of trade receivables as of 30 June 2012 and 31 December 2011 is as follows:

| | Trade receivables neither past due nor impaired | Trade receivables past due | | | | | Total |
|-------------|---|----------------------------|---------------|----------------|----------------|--------------------|--------|
| | | Less than 60 days | 60 - 150 days | 151 - 240 days | 241 - 360 days | More than 360 days | |
| 2012 | 9,782 | 6,270 | 17,416 | 3,845 | 58 | - | 37,371 |
| 2011 | 45,908 | 10,462 | 1,241 | 1,072 | 311 | - | 58,994 |

The ageing analysis of the Company's net value of trade receivables as of 30 June 2012 and 31 December 2011 is as follows:

| | Trade receivables neither past due nor impaired | Trade receivables past due | | | | | Total |
|-------------|---|----------------------------|---------------|----------------|----------------|--------------------|--------|
| | | Less than 60 days | 60 - 150 days | 151 - 240 days | 241 - 360 days | More than 360 days | |
| 2012 | 9,733 | 6,270 | 17,416 | 3,845 | 58 | - | 37,322 |
| 2011 | 45,821 | 10,462 | 1,241 | 1,072 | 311 | - | 58,907 |

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

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

| | Group | | Company | |
|--|--------------------|------------------------|--------------------|------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Taxes | 6,292 | 2,660 | 6,292 | 2,660 |
| Other receivables | 4,150 | 3,423 | 4,279 | 3,561 |
| Less: value impairment of doubtful receivables | (577) | (481) | (577) | (481) |
| | 9,865 | 5,602 | 9,994 | 5,740 |

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

| | Impairment loss |
|---------------------------------------|-----------------|
| Balance as of 31 December 2010 | 719 |
| Additional allowance formed | 6 |
| Write-off | (244) |
| Balance As of 31 December 2011 | 481 |
| Additional allowance formed | 109 |
| Write-off | (13) |
| Balance As of 30 June 2012 | 577 |

As of 30 June 2012 and 31 December 2011 the major part of the Group's and the Company's other receivables consisted of compensations from municipalities for low income families, receivables from sold inventories (metals, heating equipment) and services supplied (transportation and permanent maintenance of collectors).

The ageing analysis of the Group's net value of other receivables (excluding taxes) as of 30 June 2012 and 31 December 2011 is as follows:

| | Other receivables neither past due nor impaired | Other receivables past due but | | | | | Total |
|------|--|--------------------------------|------------------|-------------------|-------------------|--------------------------|-------|
| | | Less than 60 days | 60 - 150 days | 151 - 240 days | 241 - 360 days | More than 360 days | |
| 2012 | 501 | 1,851 | 1,153 | 55 | 13 | - | 3,573 |
| 2011 | 2,826 | 56 | 38 | 20 | 2 | - | 2,942 |

The ageing analysis of the Company's net value of other receivables (excluding taxes) As of 30 June 2012 and 31 December 2011 is as follows:

| | Other receivables neither past due nor impaired | Other receivables past due but | | | | | Total |
|------|--|--------------------------------|------------------|-------------------|-------------------|--------------------------|-------|
| | | Less than 60 days | 60 - 150 days | 151 - 240 days | 241 - 360 days | More than 360 days | |
| 2012 | 569 | 1,851 | 1,153 | 55 | 13 | 61 | 3,702 |
| 2011 | 2,903 | 56 | 38 | 20 | 2 | 61 | 3,080 |

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

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

9. Cash and cash equivalents

| | Group | | Company | |
|-----------------|-----------------------|---------------------------|-----------------------|---------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Cash in transit | 1,607 | 3,684 | 1,607 | 3,684 |
| Cash at bank | 2,003 | 2,231 | 1,918 | 2,195 |
| Cash on hand | 20 | 21 | 19 | 20 |
| | 3,630 | 5,936 | 3,544 | 5,899 |

The Group's and the Company's accounts in national currency in banks amounting to LTL 807 thousand as of 30 June 2012 (31 December 2011 – LTL 1,433 thousand) are pledged as collateral for the loans (Note 11).

10. Reserves

Legal and other reserves

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

On 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. The Company disbanded reserve by the decision of shareholders of 30th of April, 2012.

The Company allocated LTL 672 thousand from profit brought forward to legal reserve by the decision of shareholders of 30th of April, 2012 and LTL 2,584 thousand from profit brought forward to other reserves. The reserve has been formed for investments.

11. Borrowings

| | Group | | Company | |
|--|------------------|-----------------|------------------|-----------------|
| | As of 31 | | As of 31 | |
| | As of 30 | December | As of 30 | December |
| | June 2012 | 2011 | June 2012 | 2011 |
| Non-current borrowings | 35,319 | 32,169 | 35,319 | 32,169 |
| Current borrowings | | | | |
| Current portion of non-current borrowings (except leasing) | 5,478 | 11,295 | 5,478 | 11,295 |
| Current borrowings (including credit line) | 23,934 | 7,765 | 23,934 | 7,765 |
| | 29,412 | 19,060 | 29,412 | 19,060 |
| | 64,731 | 51,229 | 64,731 | 51,229 |

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

| | Group | | Company | |
|------|------------------|-----------------|------------------|-----------------|
| | As of 31 | | As of 31 | |
| | As of 30 | December | As of 30 | December |
| | June 2012 | 2011 | June 2012 | 2011 |
| 2012 | 5,478 | 11,295 | 5,478 | 11,295 |
| 2013 | 8,217 | 8,076 | 8,217 | 8,076 |
| 2014 | 8,217 | 8,076 | 8,217 | 8,076 |
| 2015 | 5,362 | 5,221 | 5,362 | 5,221 |
| 2016 | 3,464 | 3,313 | 3,464 | 3,313 |
| 2017 | 1,589 | 1,351 | 1,589 | 1,351 |
| 2018 | 1,009 | 871 | 1,009 | 871 |
| 2019 | 551 | 414 | 551 | 414 |
| 2020 | 461 | 323 | 461 | 323 |
| 2021 | 460 | 323 | 460 | 323 |
| 2022 | 461 | 323 | 461 | 323 |
| 2023 | 460 | 323 | 460 | 323 |
| 2024 | 461 | 323 | 461 | 323 |
| 2025 | 461 | 324 | 461 | 324 |
| 2026 | 461 | 323 | 461 | 323 |
| 2027 | 460 | 323 | 460 | 323 |
| 2028 | 461 | 323 | 461 | 323 |
| 2029 | 460 | 323 | 460 | 323 |
| 2030 | 461 | 323 | 461 | 323 |
| 2031 | 460 | 323 | 460 | 323 |
| 2032 | 461 | 323 | 461 | 323 |
| 2033 | 461 | 323 | 461 | 323 |
| 2034 | 461 | 324 | 461 | 324 |
| | 40,797 | 43,464 | 40,797 | 43,464 |

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 30 | December | As of 30 | December |
| | June 2012 | 2011 | June 2012 | 2011 |
| Current borrowings | 1,22 | 1,73 | 1,22 | 1,73 |
| Non-current borrowings | 3,24 | 3,73 | 3,24 | 3,73 |

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

| | Group | | Company | |
|------------------------------|-------------------------------|-----------------------------------|-------------------------------|-----------------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Currency of the loan: | | | | |
| EUR | 38,057 | 39,728 | 38,057 | 39,728 |
| LTL | 26,674 | 11,501 | 26,674 | 11,501 |
| | <u>64,731</u> | <u>51,229</u> | <u>64,731</u> | <u>51,229</u> |

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 30 June 2012 the outstanding balance of the loan amounted to LTL 10 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month VILIBOR plus 0.77% annual interest rate.

On 23 August 2005 the Group and the Company signed a long-term loan agreement with AB SEB Bank for the amount of EUR 8,776 thousand (the equivalent of LTL 30,300 thousand). The maturity date of the last portion of the loan is 31 December 2014. The outstanding balance of the loan amounted to EUR 1,810 thousand (the equivalent of LTL 6,250 thousand) As of 30 June 2012, of which LTL 1,250 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 1.9% annual interest rate. The interest swap agreement was concluded for this loan by setting a fixed interest rate for a floating interest rate, as further disclosed in Note 15.

On 1 December 2006 the Group and the Company signed a long-term loan agreement with Nordea Bank Finland Plc. Lithuanian branch for the amount of LTL 2,090 thousand. On 18 April 2007 the loan amount increased up to LTL 6,090 thousand. The maturity date of the last portion of the loan is 31 December 2015. As of 30 June 2012 the outstanding balance of the loan amounted to LTL 2,890 thousand, of which LTL 419 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 30 June 2012 the outstanding balance of the loan amounted to EUR 430 thousand (the equivalent of LTL 1,483 thousand), of which LTL 197 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 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 30 June 2012 the outstanding balance of the loan amounted to EUR 324 thousand (the equivalent of LTL 1,119 thousand), of which LTL 124 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 30 June 2012 the outstanding balance of the investment credit amounted to EUR 522 thousand (the equivalent of LTL 1,801 thousand), of which LTL 175 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 30 June 2012 the outstanding balance of the investment credit amounted to EUR 827 thousand (the equivalent of LTL 2,855 thousand), of which LTL 300 thousand was accounted for as the current portion of long term borrowings in the financial statements of the Group and the Company. The loan bears 3-month EURIBOR plus 0.7% annual interest rate.

On 25 September 2009 the Group and the Company signed a loan agreement with „Swedbank, AB for the amount of EUR 2,896 thousand (the equivalent of LTL 10,000 thousand), with the maturity date of 25 September 2012. As of 30 June 2012 the Group and the Company's balance of used loan was EUR 434 thousand (the equivalent of LTL 1,498 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 30 June 2012 the balance of used loan was EUR 1,460 thousand (the equivalent of LTL 5,040 thousand), of which LTL 601 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 30 June 2012 the balance of used loan was EUR 1,778 thousand (the equivalent of LTL 6,139 thousand), which was accounted for within long term borrowings in the financial statements of the Group and the Company. The loan bears 3.948% annual interest rate until 31 March 2019.

On 21 June 2010 the Group and the Company signed a credit agreement with „Swedbank, AB regarding the loan of EUR 649 thousand (the equivalent of LTL 2,240 thousand). The term of repayment of the last part of the loan is 21 June 2017. As of 30 June 2012 the outstanding balance of the credit amounted to EUR 349 thousand (the equivalent of LTL 1,205 thousand), of which 202 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 30 June 2012 the outstanding balance of the credit amounted to EUR 1,122 thousand (the equivalent of LTL 3,874 thousand), of which LTL 495 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 26 October 2010 the Group and the Company signed a credit agreement with the Lithuanian Ministry of Finance regarding the loan of EUR 807 thousand (the equivalent of LTL 2,788 thousand). The term of repayment of the last part of the loan is 15 March 2034. As of 30 June 2012 the balance of used loan was EUR 731 thousand (the equivalent of LTL 2,526 thousand), which was accounted for within long term borrowings in the financial statements of the Group and the Company. The loan bears 3.948% annual interest rate until 31 March 2019.

On 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 30 June 2012 the balance of used loan was EUR 1,031 thousand (the equivalent of LTL 3,560 thousand), of which LTL 183 thousand are accounted as the current part of long term borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 2.7% annual interest rate.

On 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 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 30 June 2012 the Group and the Company balances of used credit line was LTL 9,112 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. As of 30 June 2012 the balance of used loan was EUR 25 thousand (the equivalent of LTL 87 thousand), which was accounted for within long term borrowings in the financial statements of the Group and the Company. The loan bears 4.123% annual interest rate until 10 September 2019.

On 13 October, 2011 the Group and the Company signed a long-term credit agreement with AB SEB bank for the amount of EUR 290 thousand (the equivalent of LTL 1,000 thousand). As of 30 June 2012 the balance of used loan was EUR 133 thousand (the equivalent of LTL 460 thousand), of which LTL 24 thousand are accounted as the current part of long term borrowings in the financial statements of the Group and the Company. The loan bears 1-month EURIBOR plus 1.9% annual interest rate.

On 30 May, 2012 the Group and the Company signed a credit line in bank account agreement with AB DNB Bankas for the amount of LTL 15,000 thousand, with the maturity date of 30 May, 2013. As of 30 June 2012 the balances of used credit line was LTL 14,822 thousand. The credit line bears O/N + 0.72% 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 30 June 2012 the interest rate on the financial lease obligations is fixed and variable. Fixed interest rate is equal to 3.99% and 4.4635%. 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 30 | As of 31 | As of 30 | As of 31 |
| | June 2012 | December 2011 | June 2012 | December 2011 |
| Within one year | 56 | 10 | 55 | |
| From one to five years | 115 | | 115 | |
| Total financial lease obligations | 171 | 10 | 170 | |
| Interest | (9) | | (9) | |
| Present value of financial lease obligations | 162 | 10 | 161 | |
| Financial lease obligations are accounted for as: | | | | |
| - current | 53 | 10 | 52 | |
| - non-current | 109 | | 109 | |

13. Grants (deferred income)

| | Group | | Company | |
|---|-----------------------|------------------------------|-----------------------|------------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Balance at the beginning of the reporting period | 22,211 | 16,790 | 22,211 | 16,790 |
| Received during the year | 2,072 | 6,317 | 2,072 | 6,317 |
| Amortisation | (571) | (896) | (571) | (896) |
| Balance at the end of the reporting period | 23,712 | 22,211 | 23,712 | 22,211 |

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Renovation of Centralised Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at Krėvės Ave. 82 A.118H, Kaunas) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 6,000 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 5,843 thousand by 30 June 2012. The project is completed.

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Modernisation of Kaunas City Integrated Network Centre Main (4T) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 5,990 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 4,414 thousand by 30 June 2012. The project is completed.

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius–Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,333 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 1,725 thousand by 30 June 2012. The project is completed.

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2012 financing in amount of LTL 1,426 thousand has been received. The project is completed.

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project The modernisation of Žaliakalnis main of Kaunas integrated network (4Ž) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,788 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2012 financing in amount of LTL 2,526 thousand has been received. The project is completed.

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

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

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

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project The modernisation of Pramonė area main of Kaunas integrated network (1Ž) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,000 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2012 financing in amount of LTL 63 thousand has been received.

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

14. Employee benefit liability

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

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

| | Group | | Company | |
|--|------------------------|--------------|------------------------|--------------|
| | 2012 I half | 2011 | 2012 I half | 2011 |
| Employee benefit liability at the beginning of the year | 2,406 | 1,830 | 2,406 | 1,830 |
| Paid | (34) | (143) | (34) | (143) |
| Formed | 310 | 719 | | 719 |
| Employee benefit liability at the end of the year | 2,682 | 2,406 | 2,372 | 2,406 |
| Non-current employee benefit liability | 1,787 | 1,671 | 1,671 | 1,671 |
| Current employee benefit liability | 895 | 735 | 701 | 735 |

During the I half 2012 year the total amount of the benefit paid to the employees by the Group and the Company amounted to LTL 34 thousand (LTL 143 thousand for the year, ended 31 December 2011) and are included in the caption of salaries and social security expenses in the Group's and the Company's statement of comprehensive income.

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

| | As of 30 June 2012 | As of 31 December 2011 |
|--|---------------------------|-------------------------------|
| Discount rate | 7.0% | 7.0% |
| Employee turnover rate | 18.9% | 18.9% |
| Expected average annual salary increases | 3.0% | 3.0% |

15. Derivative financial instruments

On 9 April 2009, the Group and the Company concluded an interest rate swap agreement. For the period from 24 August 2009 to 22 August 2014 the Group and the Company set a fixed interest rate at 4.15% for a floating interest rate at 6-month EUR LIBOR. The nominal amount of the transaction was EUR 1,810 thousand (the equivalent of LTL 6,250 thousand) as at 30 June 2012 (EUR 2,172 thousand (the equivalent of LTL 7,500 thousand) as at 31 December 2011). Market value of swap agreement as of 30 June 2012 amounted to LTL 273 thousand (LTL 333 thousand As of 31 December 2011). This transaction does not have material impact on the future cash flows of the Group and the Company.

16. Sales income

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

| | Group | | Company | |
|--|------------------------|----------------|------------------------|----------------|
| | 2012 I half | 2011 | 2012 I half | 2011 |
| Heat energy | 213,687 | 302,842 | 213,725 | 302,893 |
| Maintenance of the heating and hot water supply systems of the buildings | 349 | 1,289 | 252 | 515 |
| Hot water supply | 2,264 | 3,725 | 2,264 | 3,725 |
| Maintenance of manifolds | 387 | 866 | 387 | 866 |
| Electric energy | 185 | 568 | 185 | 568 |
| Maintenance of hot water meters | 125 | 55 | 125 | 55 |
| | <u>216,997</u> | <u>309,345</u> | <u>216,938</u> | <u>308,622</u> |

17. Other expenses

| | Group | | Company | |
|--|--------------------|---------------|--------------------|---------------|
| | 2012 I half | 2011 | 2012 I half | 2011 |
| Cash collection expenses | 1,400 | 2,397 | 1,398 | 2,319 |
| Equipment verification and inspection | 1,657 | 3,084 | 1,682 | 3,073 |
| Debts collection expenses | 452 | 1,171 | 452 | 1,171 |
| Consulting expenses | 170 | 760 | 170 | 754 |
| Customer bills issue and delivery expenses | 225 | 476 | 225 | 476 |
| Communication expenses | 93 | 290 | 92 | 267 |
| Employees related expenses | 157 | 296 | 156 | 289 |
| Insurance | 110 | 222 | 109 | 215 |
| IT maintenance and related services | 82 | 183 | 80 | 166 |
| Membership fee | 174 | 275 | 174 | 275 |
| Transport expenses | 69 | 169 | 68 | 151 |
| Advertising expenses | 62 | 143 | 62 | 143 |
| Audit expenses | 36 | 103 | 36 | 99 |
| Stationery and post expenses | 9 | 36 | 9 | 36 |
| Rent of equipment and machinery | 10 | 37 | 7 | 14 |
| Other expenses | 915 | 1,019 | 888 | 1,093 |
| | <u>5,621</u> | <u>10,661</u> | <u>5,608</u> | <u>10,541</u> |

18. Other activities income and expenses

| | Group | | Company | |
|---|--------------------|--------------|--------------------|--------------|
| | 2012 I half | 2011 | 2012 I half | 2011 |
| Income from other operating activities | | | | |
| Miscellaneous services | 791 | 1,703 | 679 | 1,221 |
| Materials sold | 70 | 511 | 60 | 509 |
| Gain from sale of non-current assets | 91 | 6 | 90 | 6 |
| Other | 19 | 123 | 8 | 110 |
| | <u>971</u> | <u>2,343</u> | <u>837</u> | <u>1,846</u> |

Expenses from other operating activities

| | | | | |
|--------------------------------------|--------------|----------------|--------------|--------------|
| Cost of miscellaneous services | (660) | (1,217) | (256) | (564) |
| Cost of materials sold | (30) | (10) | (7) | (10) |
| Write off of non-current assets | (7) | (52) | (7) | (52) |
| Loss from sale of non-current assets | (5) | (17) | (5) | (17) |
| Other | (8) | (38) | (8) | (34) |
| | <u>(710)</u> | <u>(1,334)</u> | <u>(283)</u> | <u>(677)</u> |

19. Finance income

| | Group | | Company | |
|--|---------------|--------------|----------------|--------------|
| | 2012 | | 2012 | |
| | I half | 2011 | I half | 2011 |
| Interest from late payment of accounts receivable | 975 | 2,409 | 975 | 2,409 |
| Fines | - | 5,420 | - | 5,420 |
| Change in fair value of derivative financial instruments | 60 | 146 | 60 | 146 |
| Bank interest | 11 | 22 | 11 | 22 |
| Other | - | 4 | - | 4 |
| | <u>1,046</u> | <u>8,001</u> | <u>1,046</u> | <u>8,001</u> |

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

20. Finance costs

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2012 | | 2012 | |
| | I half | 2011 | I half | 2011 |
| Interest on bank loans and overdrafts | (897) | (1,467) | (897) | (1,466) |
| Impairment loss of non-current financial assets | | (142) | (426) | (359) |
| Penalties | (144) | (44) | (143) | (44) |
| | <u>(1,041)</u> | <u>(1,653)</u> | <u>(1,466)</u> | <u>(1,869)</u> |

21. Income tax

As of 31 of March 2012 and 31 of December 2011 deferred income tax asset and liability were accounted for by applying 15% rate. All changes in deferred tax are reported in the statement of comprehensive income.

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

22. Basic and diluted earnings (loss) per share

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

| | Group | | Company | |
|--|---------------|-------------|----------------|-------------|
| | 2012 | | 2012 | |
| | I half | 2011 | I half | 2011 |
| Net profit | 9,959 | 13,540 | 9,971 | 13,442 |
| Number of shares (thousand), opening balance | 42,732 | 42,732 | 42,732 | 42,732 |
| Number of shares (thousand), closing balance | 42,732 | 42,732 | 42,732 | 42,732 |
| Average number of shares (thousand) | 42,732 | 42,732 | 42,732 | 42,732 |
| Basic and diluted earnings per share (LTL) | 0,23 | 0,32 | 0,23 | 0,31 |

23. Financial assets and liabilities and risk management

Credit risk

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

Customers number

| | Group | | Company | |
|--|-----------------------|---------------------------|-----------------------|---------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Individuals | 114,895 | 115,012 | 114,758 | 114,807 |
| Other legal entities | 2,151 | 2,153 | 2,073 | 2,063 |
| Legal entities financed from municipalities' and state budget | 376 | 374 | 340 | 339 |
| | 117,422 | 117,539 | 117,171 | 117,209 |

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

| | Group | | Company | |
|--|-----------------------|---------------------------|-----------------------|---------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Individuals | 21,117 | 41,803 | 21,112 | 41,799 |
| Other legal entities | 4,489 | 8,278 | 4,497 | 8,262 |
| Legal entities financed from municipalities' and state budget | 11,765 | 8,913 | 11,713 | 8,846 |
| | 37,371 | 58,994 | 37,322 | 58,907 |

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

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

| | Group | | Company | |
|--------------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| A | 589 | 869 | 504 | 833 |
| A+ | 1,101 | 1,264 | 1,101 | 1,264 |
| AA- | 12 | 30 | 12 | 30 |
| B+ | - | - | - | - |
| Bank with no rating attributed | 301 | 68 | 301 | 68 |
| | 2,003 | 2,231 | 1,918 | 2,195 |

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

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

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

Interest rate risk

All of the Group's and the Company's borrowings are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2012 and 2011 to manage variable rate risk the Company has entered into interest rate swap agreements, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts as described in Note 15, calculated by the reference to an agreed upon notional principal amount.

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

| | <u>Increase/decrease in basis points</u> | <u>Effect on profit before tax</u> |
|-------------|--|------------------------------------|
| 2012 | | |
| LTL | +200 | (240) |
| LTL | -200 | 240 |
| EUR | +50 | (146) |
| EUR | -50 | 146 |
| 2011 | | |
| LTL | +200 | |
| LTL | -200 | (230) |
| EUR | +50 | 230 |
| EUR | -50 | (168) |

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as of 30 June 2012 were 0.87 and 0.80 respectively (0.96 and 0.90 as of 31 December 2011). The Company's liquidity and quick ratios as of 30 June 2012 were 0.87 and 0.80, respectively (0.97 and 0.91 as of 31 December 2011).

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

- Since 1 October 2009, the heat price for consumers is calculated using two components. A constant component of the heat price remains unchanged for the period during which the recalculated heat price is valid. Only a variable component changes depending on changes in fuel prices thus allowing the Company to reduce possible losses in case of rise in fuel prices.
- The Company attempts to receive part of investments funds from the EU Structural Funds. Since the year 2009 the Company has submitted 12 projects (50% of the cost of the project, but not more than LTL 6 million). Support agreements for 9 of them are signed as it is described in note 13, 5 projects were submitted in 2011, 2 of them – to Lithuanian Environmental investment fund as it is described in note 1;
- Considering the current situation the Group and the Company started to reduce its expenses. The Public Institution Organizacijų vertinimo agentūra (Agency of Assessment of Organizations) accomplished an assessment of the Company's management administration and activity.
- the plan of reducing production and supply losses is being currently implemented;
- The analysis of cash flows are done regularly, fulfilment of finance needs is planned and organized.

Unsecured bank overdraft and bank loan facilities:

| | Group | | Company | |
|---------------|-------------------------------|-----------------------------------|-------------------------------|-----------------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Amount used | 23,934 | 7,765 | 23,934 | 7,765 |
| Amount unused | 1,066 | 12,235 | 1,066 | 12,235 |
| | 25,000 | 20,000 | 25,000 | 20,000 |

The table below summarises the maturity profile of the Group's financial liabilities as of 30 June 2012 and as of 31 December 2011 based on contractual undiscounted payments (scheduled payments including interest).

| | Less than 3 months | 4 to 6 months | 2 to 5 years | More than 5 years | Total |
|---------------------------------------|--------------------|---------------|---------------|-------------------|----------------|
| Interest bearing loans and borrowings | 12,992 | 2,426 | 43,269 | 12,984 | 71,671 |
| Trade payables | 29,047 | 545 | 38 | - | 29,630 |
| Balance As of 30 June 2012 | 42,039 | 2,971 | 43,307 | 12,984 | 101,301 |

| | Less than 3 months | 4 to 12 months | 2 to 5 years | More than 5 years | Total |
|---------------------------------------|--------------------|----------------|---------------|-------------------|----------------|
| Interest bearing loans and borrowings | 2,554 | 18,107 | 27,468 | 9,554 | 57,683 |
| Trade payables | 54,192 | 698 | 37 | - | 54,964 |
| Balance As of 31 December 2011 | 56,783 | 18,805 | 27,505 | 9,554 | 112,647 |

The table below summarises the maturity profile of the Company's financial liabilities, As of 30 June 2012 and as of 31 December 2011 based on contractual undiscounted payments (scheduled payments including interest).

| | Less than 3 months | 4 to 6 months | 2 to 5 years | More than 5 years | Total |
|---------------------------------------|--------------------|---------------|---------------|-------------------|----------------|
| Interest bearing loans and borrowings | 12,991 | 2,426 | 43,269 | 12,984 | 71,670 |
| Trade payables | 29,064 | 545 | 38 | - | 29,647 |
| Balance As of 30 June 2012 | 42,055 | 2,971 | 43,307 | 12,984 | 101,317 |

| | Less than 3 months | 4 to 12 months | 2 to 5 years | More than 5 years | Total |
|---------------------------------------|--------------------|----------------|---------------|-------------------|----------------|
| Interest bearing loans and borrowings | 2,549 | 18,102 | 27,468 | 9,554 | 57,673 |
| Trade payables | 54,302 | 698 | 37 | - | 55,037 |
| Balance As of 31 December 2011 | 56,851 | 18,800 | 27,505 | 9,554 | 112,710 |

Trade payables

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

| | Group | | Company | |
|--------------------|--------------------|------------------------|--------------------|------------------------|
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| For heat purchased | 10,453 | 37,885 | 10,453 | 37,885 |
| Contractors | 16,902 | 11,035 | 17,053 | 11,035 |
| Other suppliers | 2,275 | 6,044 | 2,141 | 6,117 |
| | 29,630 | 54,964 | 29,647 | 55,037 |

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

As of 30 June 2012 the Group and the Company had an LTL 215 thousand of overdue trade creditors. As of 31 December 2011 neither the Group nor the Company had overdue trade creditors.

Foreign currency risk

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

Fair value of financial instruments

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

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

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

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

Categories of financial instruments:

Financial assets:

| | Group | | | Company | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | As of 30 | As of 31 | As of 31 | As of 30 | As of 31 | As of 31 |
| | June | December | December | June | December | December |
| | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
| Cash and bank balances | 3,630 | 5,936 | 3,574 | 3,544 | 5,899 | 3,524 |
| Loans and receivables | 47,279 | 64,639 | 77,903 | 47,359 | 64,690 | 77,822 |
| Available-for-sale financial assets | 95 | 95 | 237 | 5,010 | 5,436 | 5,795 |
| | 51,004 | 70,670 | 81,714 | 55,913 | 76,025 | 87,141 |

Financial liabilities:

| | Group | | | Company | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | As of 30 | As of 31 | As of 31 | As of 30 | As of 31 | As of 31 |
| | June | December | December | June | December | December |
| | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
| Carried at fair value through profit or loss (FVTPL) | 273 | 333 | 479 | 273 | 333 | 479 |
| Carried at amortised cost | 94,376 | 106,203 | 121,565 | 94,392 | 106,266 | 121,517 |
| | 94,649 | 106,536 | 122,044 | 94,665 | 106,599 | 121,996 |

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

Capital management

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management until 30th of June, 2012 and year ended 31 December 2011, except for increase in share capital paid by contributions in kind as disclosed in Note 1.

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

The Group and the Company monitor capital using debt to equity ratio. Capital includes ordinary shares, reserves, earnings retained 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 30 | As of 31 | As of 30 | As of 31 |
| | June | December | June | December |
| | 2012 | 2011 | 2012 | 2011 |
| Non-current liabilities (including deferred tax and grants (deferred income)) | 68,100 | 63,014 | 68,653 | 63,683 |
| Current liabilities | 64,529 | 78,559 | 64,101 | 78,359 |
| Liabilities | 132,629 | 141,573 | 132,754 | 142,042 |
| Equity | 269,958 | 270,682 | 273,315 | 274,027 |
| Debt* to equity ratio (%) | 49,13 | 52,30 | 48,57 | 51,84 |

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

Market risk

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

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

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

24. Commitments and contingencies

Litigations

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

On 3 of November, 2010 the Company placed a second claim to Vilnius Commercial Arbitration Court (hereafter – VCAC) regarding additional forfeit in amount LTL 12,352 thousand from defendant KTE due to

the improper fulfilment of the Investments agreement. VCAC satisfied Company's claim partly by its decision of 19 of December, 2011: a fine in amount of LTL 7 054 thousand, 6 percent annual interest for the period from 4 of November, 2010 until the day of fulfilment of this decision from the sum awarded, LTL 37 thousand and LTL 42 thousand of compensation expenses were awarded from the defendant KTE in favour of the Company. On 23 December, 2011 KTE placed a claim to Lithuanian Court of Appeal in order to discharge a decision of VCAC, also an application to stop prosecution of this decision until the case will be investigated. Lithuanian Court of Appeal has stopped a prosecution of decision of VCAC of 19 December, 2011 by the decision of 12 January, 2012 until Lithuanian Court of Appeal will investigate the civil case in accordance to claim of KTE. The session of Lithuanian Court of Appeal regarding the investigation of the claim is still not appointed.

As of 30 June, 2012 and of 31 December, 2011 the accrual for the sum of claims was not been made in financial statements of the Group and the Company, because the income from fines and penalties is shown in those statements only when it is paid-in.

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

Leasing and constraction work purchase arrangements

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

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

Future liabilities under valid buying agreements as of 30th of June, 2012 are LTL 65,130 thousand.

25. Related parties transactions

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

In 2012 and 2011 the Group and the Company did not have any significant transactions with the other companies controlled by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the entities controlled by the Kaunas city municipality were executed at market prices.

In 2012 and 2011 the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by Kaunas city municipality and amounts of receivables from and liabilities to them at the end of the year were as follows:

| 2012 | Purchases | Sales | Receivables | Payables |
|---|------------------|--------------|--------------------|-----------------|
| Kaunas city municipality and entities financed and controlled by Kaunas city municipality | 669 | 31,767 | 18,422 | 259 |
| Jurbarkas city municipality | - | 1,869 | 33 | - |
| 2011 | Purchases | Sales | Receivables | Payables |
| Kaunas city municipality and entities financed and controlled by Kaunas city municipality | 1,668 | 33,199 | 16,103 | 255 |
| Jurbarkas city municipality | 4 | 2,278 | 19 | 50 |

The Group's and the Company's As of 30 June 2012 allowance for overdue receivables from entities financed and controlled by municipalities amounted to LTL 6,640 thousand. (as of 31 December 2011 – LTL 6,686 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

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

| Pastatų priežiūros paslaugos UAB | Purchases | Sales | Receivables | Payables |
|----------------------------------|------------------|--------------|--------------------|-----------------|
| 2012 | 781 | 53 | 291 | 213 |
| 2011 | 1,206 | 112 | 299 | 157 |

Remuneration of the management and other payments

As at 30 June 2012 and as at 31 December 2011 the Group's and the Company's management team comprised 6 and 4 persons respectively.

| | Group | | Company | |
|-------------------------------------|-------------------------------|---------------------------------------|-------------------------------|---------------------------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Key management remuneration | 230 | 523 | 181 | 416 |
| | Group | | Company | |
| | As of 30 June 2012 | As of 31 December 2011 | As of 30 June 2012 | As of 31 December 2011 |
| Calculated post-employment benefits | 104 | 70 | 96 | 70 |

In 2012 and 2011 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

26. Post balance sheet events

Forasmuch the Company had got an official note on 13th of April, 2012 confirming the decision of Gazprom OAO to sell its shares to the smaller shareholder "Clement Power Venture Inc.", and forasmuch the provision, that Gazprom OAO as the main shareholder of KTE must ensure that during the term of agreement, i. e. until 30th of March, 2018 it will own the main block of shares and adequate (not less than 51%) number of votes in General meeting of shareholders, is confirmed in heat purchase agreement signed in 2003 between the Company and KTE, Company's Management Board decided on 10th of July, 2012 to approve the selling of all the shares of Kauno Termofikacijos Elektrinė UAB owned by Gazprom OAO to „Clement Power Venture Inc.“, regularizing terms of change of contracts agreements signed with Kauno Termofikacijos Elektrinė UAB and seeking from this selling the best for the Company.

On 2nd of July, 2012 the report of environmental impact assessment of planned to reconstruct Petrašiūnai power plant was presented to Petrašiūnai community in Petrašiūnai secondary school. Despite arguments and calculations stated in report, member of community expressed their deprecation for planned reconstruction of the power plant. Seeking to confirm their deprecation they delivered a requisition with signatures to report organizers.

On 19th of July, 2012 Lithuanian Business Support Agency (LBSA) confirmed that it intends to assign a financing at LTL 6 million at a project for installing new cogeneration power plants in Petrašiūnai power plant and Inkaras boiler-house according to presented applications and that documents required to make a decision regarding financing of projects are presented to Ministry of Economy of the Republic of Lithuania.
