

AB KAUNO ENERGIJA
SET OF CONSOLIDATED AND PARENT
COMPANY'S FINANCIAL STATEMENTS FOR
THE YEAR, ENDED 31 DECEMBER 2012,
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING
STANDARDS, AS ADOPTED BY THE
EUROPEAN UNION, PRESENTED TOGETHER
WITH CONSOLIDATED ANNUAL REPORT
AND INDEPENDENT AUDITOR'S REPORT

Translation note

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

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of KAUNO ENERGIJA, AB:

Report on the Financial Statements

We have audited the accompanying financial statements of Kauno Energija, AB (hereafter – the Company) and the consolidated financial statements of Kauno Energija, AB and its subsidiary (hereafter – the Group) (pages from 5 to 53), which comprise the Company's and the Group's statements of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The carrying value of property, plant and equipment of the Group and the Company amounting to LTL 348 million and LTL 347 million, respectively, as at 31 December 2012 (31 December 2011: LTL 336 million and LTL 335 million, respectively) includes assets with the carrying value of LTL 130 million (31 December 2011: LTL 132 million) received as a contribution in-kind from one of the Company's shareholders in 2009. The fair value of these assets acquired from the shareholder was estimated upon their transfer to the Company by local independent qualified valuers using depreciated replacement cost method and was not subject to adequate profitability test as required by the International valuation standards and therefore, may not be a reliable estimate of their fair value. Following to the provision of IAS 16 "Property, plant and equipment", the cost of property, plant and equipment acquired in exchange for non-monetary assets should be measured at fair value. In the absence of reliable information about the fair value of these assets we were unable to obtain sufficient appropriate audit evidence about whether the assets received as a contribution in-kind have been recognized in appropriate values in accordance with the International Financial Reporting Standards as adopted by the European Union.

Qualified Opinion

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and legal regulations on accounting and financial reporting of the Republic of Lithuania.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2012 (pages 54 to 123) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2012.

Deloitte Lietuva, UAB
Audit Company License No 001275

Sigitas Babarskas
Lithuanian Certified Auditor
Licence No 000403

Vilnius, Republic of Lithuania
29 March 2013

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Statements of Financial Position

	Notes	Group		Company	
		As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
ASSETS					
Non-current assets					
Intangible assets	3	204	305	204	299
Property, plant and equipment	4				
Land and buildings		26,577	27,673	25,220	26,259
Structures and machinery		307,592	295,319	307,602	295,336
Vehicles		413	259	441	242
Equipment and tools		11,605	11,880	11,563	11,813
Construction in progress and prepayments		2,198	998	2,198	998
Total property, plant and equipment		348,385	336,129	347,024	334,648
Non-current financial assets					
Investments into subsidiary	1	-	-	4,754	5,341
Non-current accounts receivable	5	45	43	45	43
Other financial assets	6	433	95	433	95
Total non-current financial assets		478	138	5,232	5,479
Total non-current assets		349,067	336,572	352,460	340,426
Current assets					
Inventories and prepayments					
Inventories	7	4,246	4,746	4,155	4,622
Prepayments		396	405	409	475
Total inventories and prepayments		4,642	5,151	4,564	5,097
Current accounts receivable	8				
Trade receivables	23	82,086	58,994	81,981	58,907
Other receivables		6,094	5,602	6,094	5,740
Total accounts receivable		88,180	64,596	88,075	64,647
Cash and cash equivalents	9,23	5,332	5,936	5,308	5,899
Total current assets		98,154	75,683	97,947	75,643
Total assets		447,221	412,255	450,407	416,069



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Statements of Financial Position
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	Notes	Group		Company	
		As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 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		1,196	13,540	837	13,442
Profit (loss) for the prior year		(284)	(3,353)	3,061	90
Total retained earnings (deficit)		912	10,187	3,898	13,532
Total equity		261,195	270,682	264,181	274,027
Liabilities					
Non-current liabilities					
Non-current borrowings	11,23	33,746	32,169	33,746	32,169
Financial lease obligations	12,23	67	-	67	-
Deferred tax liability	21	8,110	6,771	8,798	7,440
Grants (deferred income)	13	26,546	22,211	26,546	22,211
Employee benefit liability	14	2,173	1,671	1,996	1,671
Other non-current liabilities		23	192	23	192
Total non-current liabilities		70,665	63,014	71,176	63,683
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12,23	8,533	11,305	8,533	11,295
Current borrowings	11,23	27,631	7,765	27,631	7,765
Trade payables	23	72,865	54,927	72,897	55,000
Payroll-related liabilities		2,011	1,978	1,825	1,758
Advances received		878	953	878	946
Taxes payable		1,071	102	1,038	70
Derivative financial instruments	15	204	333	204	333
Current portion of employee benefit liability	14	1,124	735	1,003	735
Other current liabilities		1,044	461	1,041	457
Total current liabilities		115,361	78,559	115,050	78,359
Total liabilities		186,026	141,573	186,226	142,042
Total equity and liabilities		447,221	412,255	450,407	416,069

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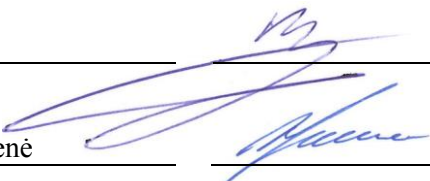

The accompanying notes are an integral part of these financial statements,

General Manager	Rimantas Bakas		29 March 2013
Chief Accountant	Violeta Staškūnienė		29 March 2013

Statements of Comprehensive Income

	Notes	Group		Company	
		2012	2011	2012	2011
Income					
Sales income	16	369,723	309,345	369,462	308,622
Other operating income	18	2,091	2,343	1,908	1,846
Total income		371,814	311,688	371,370	310,468
Expenses					
Fuel and heat acquired		(296,717)	(233,756)	(296,717)	(233,756)
Salaries and social security		(22,827)	(22,334)	(22,078)	(21,412)
Depreciation and amortisation	3,4	(15,879)	(15,888)	(15,879)	(15,842)
Repairs and maintenance		(5,948)	(5,703)	(5,948)	(5,703)
Write-offs and change in allowance for accounts receivable	5,8	(5,896)	(2,189)	(6,210)	(2,189)
Taxes other than income tax		(5,073)	(4,312)	(5,043)	(4,286)
Electricity		(2,574)	(2,515)	(2,565)	(2,504)
Raw materials and consumables		(1,857)	(1,962)	(1,766)	(1,847)
Maintenance of heating and hot water systems		-	(463)	(388)	(1,026)
Water		(1,172)	(1,160)	(1,170)	(1,156)
Change in write-down to net realisable value of inventories	7	(644)	(999)	(644)	(999)
Other expenses	17	(10,252)	(10,661)	(10,210)	(10,541)
Other activities expenses	18	(1,193)	(1,334)	(723)	(677)
Total expenses		(370,032)	(303,276)	(369,341)	(301,938)
Profit		1,782	8,412	2,029	8,530
Finance income					
	19	2,463	8,001	2,463	8,001
Finance costs					
	20	(1,710)	(1,653)	(2,297)	(1,869)
Finance cost, net		753	6,348	166	6,132
Profit before income tax		2,535	14,760	2,195	14,662
Income tax	21	(1,339)	(1,220)	(1,358)	(1,220)
Net profit		1,196	13,540	837	13,442
Total comprehensive income		1,196	13,540	837	13,442
Profit attributable to the shareholders		1,196	13,540	837	13,442
Basic and diluted earnings per share (LTL)	22	0,03	0,32	0,02	0,31

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



General Manager	Rimantas Bakas		29 March 2013
Chief Accountant	Violeta Staškūnienė		29 March 2013

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		-	-	-	13,540	13,540
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		-	-	-	1,196	1,196
Balance as of 31 December 2012		256,392	1,307	2,584	912	261,195

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		-	-	-	13,442	13,442
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		-	-	-	837	837
Balance as of 31 December 2012		256,392	1,307	2,584	3,898	264,181

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

General Manager	Rimantas Bakas		29 March 2013
Chief Accountant	Violeta Staškūnienė		29 March 2013

Statements of Cash Flows

	<u>Group</u>		<u>Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Cash flows from (to) operating activities				
Net profit	1,196	13,540	837	13,442
Adjustments for non-cash items:				
Depreciation and amortisation	18,371	17,916	18,286	17,778
Write-offs and change in allowance for accounts receivable	5,913	2,206	6,227	2,206
Interest expenses	1,496	1,466	1,496	1,465
Change in fair value of derivatives	(129)	(146)	(129)	(146)
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	(413)	205	(412)	205
Income tax expenses	1,339	1,220	1,358	1,220
(Amortisation) of grants (deferred income)	(1,163)	(896)	(1,163)	(896)
Change in write-down to net realisable value of inventories	644	999	644	999
Change employee benefit liability	1,093	719	791	719
Change in accruals	(222)	(265)	(192)	(233)
Impairment of investment in subsidiary	-	-	587	217
Elimination of other financial and investing activity results	(1,782)	(7,810)	(1,782)	(7,811)
Total adjustments for non-cash items:	25,147	15,614	25,711	15,723
Changes in working capital:				
(Increase) in inventories	(141)	(450)	(174)	(452)
Decrease in prepayments	6	102	2	123
(Increase) decrease in trade receivables	(28,919)	11,038	(29,023)	10,869
(Increase) in other receivables	(543)	(586)	(530)	(549)
(Decrease) increase in other non-current liabilities	(14)	34	(14)	34
Increase in current trade payables and advances received	17,863	289	17,829	358
(Decrease) increase in payroll-related liabilities	(207)	72	(199)	46
Increase (decrease) in other liabilities to budget	969	(26)	968	(3)
Increase (decrease) in other current liabilities	463	(114)	445	(113)
Total changes in working capital:	(10,523)	10,359	(10,696)	10,313
Net cash flows from operating activities	15,820	39,513	15,852	39,478



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

	Group		Company	
	2012	2011	2012	2011
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(30,172)	(34,526)	(30,201)	(34,514)
Proceeds from sale of tangible assets	166	35	165	35
Interest received for overdue accounts receivable	1,984	1,869	1,984	1,869
Decrease of non-current accounts receivable	-	24	-	24
Interest received	12	26	12	26
Net cash (used in) investing activities	(28,010)	(32,572)	(28,040)	(32,560)
Cash flows from (to) financing activities				
Proceeds from loans	29,955	9,336	29,955	9,336
(Repayment) of loans	(11,318)	(18,644)	(11,318)	(18,644)
Interest (paid)	(1,552)	(1,949)	(1,552)	(1,948)
Financial lease (payments)	(67)	(34)	(56)	-
Penalties and fines (paid)	(214)	(45)	(214)	(44)
Dividends (paid)	(10,670)	-	(10,670)	-
Received grants	5,452	6,757	5,452	6,757
Net cash flows from (used in) financing activities	11,586	(4,579)	11,597	(4,543)
Net (decrease) increase in cash and cash equivalents	(604)	2,362	(591)	2,375
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	5,332	5,936	5,308	5,899

(the end)

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

General Manager	Rimantas Bakas		29 March 2013
Chief Accountant	Violeta Staškūnienė		29 March 2013

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

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

	As of 31 December 2012		As of 31 December 2011	
	Number of shares owned (unit)	Percentage of ownership (percent)	Number of shares owned (unit)	Percentage of ownership (percent)
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 31 December 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 13 thousand is accounted for in other current liabilities as of 31 December 2012.

The Group and the Company are also involved in maintenance of heating systems. On 1 July 2006 on the basis of Kaunas Energy Services Department the Company 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. Starting from July 1, 2006 the Company contracted the Subsidiary for permanent technical maintenance of heating and hot water supply systems of the buildings maintained by the Company. Whereas, according to the changes in the Law on Heat Sector, the Subsidiary is not able to provide heating and hot water supply systems maintenance services starting from 1 July 2012, reorganization of the Subsidiary in the way of separation was approved by the decision of the Company's Management Board of 6 April 2012. As of 31 December 2012 the Subsidiary accounted for the accruals for the planned employee lay-off.

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

Company	Principal place of business	Share held by the Group	Cost of investment As of 31 December 2012	Writing-off cost of investment reducing the capital As of 31 December 2012	Loss reported for 2012 after capital reduction	Total equity As of 31 December 2012	Main activities
UAB Pastatų Priežiūros Paslaugos	Savanorių Ave. 347, Kaunas	100 percent	6,518	(1,764)	(54)*	4,700	Maintenance of heating and hot water systems

* the loss of the year 2012 is LTL 641 thousand.

As of 31 December 2012 accumulated impairment loss on investment in UAB Pastatų Priežiūros Paslaugos amounted to LTL 1,764 thousand (31 December 2011 - LTL 1,177 thousand) in the Company's profit or loss in article of financial activity expenses (Note 20).

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 adjusting accumulated loss of LTL 1,603 thousand. The new Articles of Association of Subsidiary were registered on 13th of June, 2012. It has been decided by the decision of the meeting of shareholders of 16th of November, 2012 to reduce authorised capital to LTL 4,754 thousand by withdrawing accumulated loss of LTL 161 thousand. The new Articles of Association of Subsidiary were registered on 7th of December, 2012.

Legal Regulations

Operations of the Company 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 prohibition, provided by the law, is not applied to the maintenance of heating and hot water systems of buildings which appear in populated localities with less than 50 000 inhabitants according to the data of the Lithuanian Department of Statistics, if the municipal council doesn't make a different decision. This change in the Law on Heat Sector of the Republic of Lithuania No X-1613 came into force starting November 1, 2011. Any expenses, related to maintenance of the heat points are not included in a heat price since that date.

According to the Heating Law of the Republic of Lithuania, the Company's activities are licensed and regulated by the State Price Regulation Commission of Energy Resources (hereinafter the Commission).

On 26 February 2004 the Commission granted the Company the heat distribution license. The license has indefinite maturity, but is subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets price cap for the heat supply. On 14 December 2012 the Commission by its decision No. O3-413 determined a new basic heat prices for the period from 1 January 2013 till 31 December 2016.

Operational Activity

The Company's generation capacity includes a power plant in Petrašiūnai, 4 district boiler-houses in Kaunas integrated network, 7 regional boiler-houses in Kaunas region, 1 regional boiler-house in Jurbarkas city, 13 isolated networks and 33 local gas burning boiler-houses in Kaunas.

On March 21, 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 496.08 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 504.83 MW.

In the year 2003 the Company sold a part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter KTE) and committed to purchase at least 80 percent of the annual demand of Kaunas integrated heating network from this company. The contract is valid for 15 years from the signing day. It was determined in this contract that heat purchase price from KTE will not increase in 5 years from the day of contract signing. Starting from 1 December 2008 a new basic heat prices for each 4 years period are being approved by the Commission for KTE and for the Company according to valid legal acts. Amendment of the contract described in note 26.

The Company received 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 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 percent) 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 the best for the Company from this selling. Concluding the negotiations with KTE regarding change of agreements, the Management Board accepted projects of agreements by its decision of 9 August, 2012 and on 13 August 2012 agreements between the Company and KTE on the change of Agreement on Investments and of Heat Sales Contract were signed. The agreement signed by the Company on termination of Contract of Guarantee from 31 March, 2003 was given to KTE to present to Gazprom OAO for signing. On 6 September, 2012 at the extraordinary meeting the main shareholder of The Company – Kaunas City Municipality (hereinafter – Municipality) committed the Company to aim more beneficial conditions to the city and to change the agreements. In that case the Company resumed the negotiations with KTE. On September 28 2012 Company's Management Board approved Municipality Council decision to change August 13 2012 agreements with KTE additionally including provisions regarding cancellation of all obligatory city liabilities to purchase heat from KTE and regarding KTE liabilities to invest LTL 10 million in Kaunas city infrastructure only when particular objects will be agreed with the Municipality. Additional agreements on change of agreements with KTE with those conditions the Company and KTE signed on 28 September 2012. 13 August, 2012 agreements and their changes will come into force when Gazprom OAO will transfer an ownership of 99.496 percent of the shares of UAB Kauno Termofikacijos Elektrinė to Clement Power Venture Inc. On the 25th of October, 2012 KTE presented to the Company the agreement of the 13th of August 2012, signed by AB Gazprom regarding termination of Contract of Guarantee from 31 March 2003. Further progress is described in note 26.

In the year 2012 the average number of employees at the Group was 626 (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 30,620 and 30,661 thousand in the own property during 2012 (during 2011 – LTL 35,202 and LTL 35,190 thousand).

Estimating conditionally high price of the heat bought from KTE, which owns a main Kaunas heat production source, and seeking to contribute to the international liabilities of Lithuania to increase usage of renewable energy sources in heat production, to reduce Lithuania's dependence from imported fossil fuel and to provide the heat energy at a competitive price, the Company initiated reconstruction projects of existing boiler-houses, fitting them to work on wood fuel (wooden chips, waste of deforestation, sawdust).

The Company and Lietuvos Energija, AB are seeking to cooperate developing the project of Petrašiūnai power plant reconstruction. It's planned, after establishing of the joint venture Petrašiūnų energija, to reconstruct existing and to build new equipment, producing heat and electricity by burning bio-fuel in Company's Petrašiūnai heat and power plant. The electric capacity of new and reconstructed equipment will reach 17 MW, and heat capacity – to 50 MW. It's planned to produce approximately 428.000 MWh of heat and approximately 116.100 MWh of electricity with this new and reconstructed equipment and with new condensational economizer per year. Approximately 257,5 thousand tons of wood would be used for the production of this amount of energy. The value of the project can reach LTL 150 million. To implement the project the Company intends to use existing buildings, equipment and infrastructure, and Lietuvos Energija, AB intends to finance the project implementation with own and/or borrowed funds. Environmental impact assessment is already accomplished. Further progress of the project is described in note 26.

In the end of 2011 the Company applied to Lithuanian Environmental Investment Fund (hereinafter – LEIF) for the partial financing of the projects “Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler” (value of the project amounts to LTL 5,3 million, planned to produce heat amount – 16500 MWh per year), “Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3,5 MW capacity water boiler” (value of the project amounts to LTL 4,6 million, planned to produce heat amount – 6710 MWh per year) and “Reconstruction of Pergalė boiler-house equipping it with condensational smoke economizer” (value of the project amounts to LTL 2,3 million, the sum of support asked is LTL 0,6 million). The projects of reconstruction of Noreikiškės and Ežerėlis boiler-houses are planned to implement in 2013. Implementation of these projects would not only contribute to reduction of Greenhouse Gas Emission but also would have an influence on heat price reduction to the consumers. Further progress of the projects is described in note 26.

The Company actively implements preparatory works of Šilkas and Inkaras boiler-houses reconstructions, fitting existing gas burned boilers to work on bio-fuel: a technical documentation and a territory planning documents are prepared, contracts are being signed. It's planned, that these projects will be implemented in the years 2013 – 2014 and it will probably have an influence on heat price reduction to the consumers.

It's planned in Šilkas boiler-house to fit a water boiler DKVR 10/13 to work on bio-fuel in 2013. The heat, produced with this boiler would be supplied in Kaunas integrated heat supply network. The heat capacity of boiler with economizer will be 9 MW. Prospective value of the project is LTL 5,2 million.

It's planned to equip Inkaras boiler-house with two new bio-fuel burned water boilers in complement with furnaces and condensational economizer in 2013. The heat capacity of boilers will be 8 MW each and of condensational economizer - 4 MW. Prospective value of the project is LTL 12 million.

Currently the Company has 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 Company. 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 12 October 2012 the heat purchase agreement between the Company and UAB GECO Kaunas has been signed. The new UAB GECO Kaunas boiler-house will produce up to 140 MWh heat per year. Its project capacity reaches up to 20 MW. The amount of heat produced by boiler-house will reach up to 10 percent of whole Kaunas heat demand. Agreement is valid until 31 December 2015 and carries the possibility of to extend the term.

On 14 December 2012 the heat purchase agreement between the Company and UAB Lorizon Energy has been signed. This company built a 10 MW capacity boiler-house, which will supply approximately 5 percent of heat, consumed in Kaunas integrated network. Agreement is valid until 31 December 2015 and carries the possibility of to extend the term.

On 27 January 2012 Lithuanian Energy Institute (LEI) and Company signed an agreement according to which specialists of LEI and Company 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 Company activity and for increasing reliability of heat supply.

2. Accounting principles

2.1. Adoption of new and revised International Financial Reporting Standards

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period.

2.1.1. Standards and Interpretations effective in the current period

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

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

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

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

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

- **IFRS 10 “Consolidated Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 “Joint Arrangements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 “Disclosures of Interests in Other Entities”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 13 “Fair Value Measurement”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) “Separate Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”** - Government Loans (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 “Presentation of financial statements”** - Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 “Income Taxes”** - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 “Employee Benefits”** - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IAS 32 “Financial instruments: presentation”** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 11 February 2013:

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2015),
- **Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures”** – Mandatory Effective Date and Transition Disclosures,
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities”** - Transition Guidance (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements”** - Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to various standards “Improvements to IFRSs (2012)”** resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013).

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

2.2. Statement of Compliance

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

2.3. Basis of the preparation of financial statements

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

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

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

Starting from 2 February 2002, Lithuanian litas is pegged to EUR at the rate of 3.4528 LTL for 1 EUR, 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 percent 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.

Derecognition of financial assets

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

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

2.11. Derivative financial instruments

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

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

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

2.12. Inventories

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

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

2.13. Provisions

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

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

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

2.14. Cash and cash equivalents

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

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

2.15. Employee benefits

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

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

2.16. Borrowing costs

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

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

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

2.17. Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

2.18. Leasing

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

The Group and the Company as lessor

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

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

The Group and the Company as lessee

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

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

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

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

2.19. Grants (deferred income)

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

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

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

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

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

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

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

2.20. Income tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2012 the income tax applied to the Group and the Company was 15 percent (2011 – 15 percent).

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

2.21. Basic and diluted earnings per share

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

2.22. Revenue recognition

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

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

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

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

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

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

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis,

by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

2.23. Expense recognition

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

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

2.24. Foreign currencies

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

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

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

<u>As of 31 December 2012</u>		<u>As of 31 December 2011</u>	
1 EUR	= 3,4528 LTL	1 EUR	= 3,4528 LTL
1 USD	= 2,6060 LTL	1 USD	= 2,6694 LTL
1 GBP	= 4,2015 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 forms 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 a new shares issue was paid by contribution in-kind - manifolds situated in Kaunas city: i.e. market value of assets determined upon their transfer by local qualified valuers using depreciated replacement costs method amounted to LTL 136 million.

In 2010 a new shares issue was paid by contribution in-kind: i.e. building – boiler-house situated in Kaunas city and by networks system situated in Jurbarkas city. Market value of assets estimated upon their transfer by local qualified valuers by using depreciated replacement costs method amounted to LTL 0.616 million.

Following decision of 12 August 2012 of the Commission stated in 2012, the Company performed an additional valuations of contribution in-kind, i. e. manifolds in 2012. It's emphasized in the valuation report, that in this particular case a value of manifolds calculated in the method of income is not correct market value of the asset and the value of the manifolds, determined under the replacement cost method, is considered to be the market value of the assets.

As of 31 December 2012 carrying value of total contribution in-kind amounted to LTL 130,395 thousand, including the manifolds, which amounted to LTL 129,785 thousand (31 December 2011: LTL 132,365 thousand and LTL 131,729 thousand respectively).

Allowances for accounts receivable

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

Deferred Tax Asset

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

Litigations

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

2.26. Contingencies

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

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

2.27. Subsequent events

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

2.28. Offsetting and comparative figures

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

2.29. Segments

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

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

3. Intangible assets

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

	<u>Group</u>	<u>Company</u>
	<u>Patents, licenses</u>	
Cost:		
Balance as of 31 December 2010	5,278	5,225
Additions	146	146
Disposals and write-offs	(137)	(137)
Balance as of 31 December 2011	5,287	5,234
Additions	-	-
Disposals and write-offs	-	-
Transfers from property, plant and equipment	92	92
Balance as of 31 December 2012	5,379	5,326
Amortisation:		
Balance as of 31 December 2010	4,652	4,611
Charge for the year	467	461
Disposals and write-offs	(137)	(137)
Balance as of 31 December 2011	4,982	4,935
Charge for the year	193	187
Disposals and write-offs	-	-
Balance as of 31 December 2012	5,175	5,122
Net book value as of 31 December 2010	626	614
Net book value as of 31 December 2011	305	299
Net book value as of 31 December 2012	204	204

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

As of 31 December 2012 part of the non-current intangible assets of the Group with the acquisition cost of LT 4,909 thousand (LTL 4,462 thousand as of 31 December 2011) and the Company - LT 4,858 thousand (LTL 4,462 thousand as of 31 December 2011) were fully amortised but were still in active use.

4. Property, plant and equipment

Group	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2010	56,949	529,370	4,752	19,157	10,181	620,409
Additions	-	717	-	2,676	31,663	35,056
Disposals and write-offs	(42)	(2,266)	(74)	(1,166)	-	(3,548)
Reclassifications	220	22,689	-	17,937	(40,846)	-
Balance as of 31 December 2011	57,127	550,510	4,678	38,604	998	651,917
Additions	-	490	318	1,846	27,966	30,620
Disposals and write-offs	(254)	(1,536)	-	(3,566)	-	(5,356)
Reclassifications	136	25,533	-	1,005	(26,674)	-
Transfers to intangible assets	-	-	-	-	(92)	(92)
Balance as of 31 December 2012	57,009	574,997	4,996	37,889	2,198	677,089
Accumulated depreciation:						
Balance as of 31 December 2010	28,295	255,574	4,286	13,609	-	301,764
Charge for the year	1,195	13,774	204	2,276	-	17,449
Disposals and write-offs	(27)	(2,193)	(71)	(1,134)	-	(3,425)
Reclassifications	(9)	(11,964)	-	11,973	-	-
Balance as of 31 December 2011	29,454	255,191	4,419	26,724	-	315,788
Charge for the year	1,169	13,904	164	2,941	-	18,178
Disposals and write-offs	(191)	(1,509)	-	(3,562)	-	(5,262)
Reclassifications	-	(181)	-	181	-	-
Balance as of 31 December 2012	30,432	267,405	4,583	26,284	-	328,704
Net book value as of 31 December 2010	28,654	273,796	466	5,548	10,181	318,645
Net book value as of 31 December 2011	27,673	295,319	259	11,880	998	336,129
Net book value as of 31 December 2012	26,577	307,592	413	11,605	2,198	348,385

Company	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2010	54,407	528,746	3,537	18,792	10,181	615,663
Additions	-	717	-	2,664	31,663	35,044
Disposals and write-offs	(42)	(2,266)	(74)	(1,163)	-	(3,545)
Reclassifications	220	22,689	-	17,937	(40,846)	-
Balance as of 31 December 2011	54,585	549,886	3,463	38,230	998	647,162
Additions	-	490	360	1,845	27,966	30,661
Disposals and write-offs	(254)	(1,534)	-	(3,559)	-	(5,347)
Reclassifications	136	25,533	-	1,005	(26,674)	-
Transfers from intangible assets	-	-	-	-	(92)	(92)
Balance as of 31 December 2012	54,467	574,375	3,823	37,521	2,198	672,384
Accumulated depreciation:						
Balance as of 31 December 2009	27,223	254,927	3,133	13,336	-	298,619
Charge for the year	1,138	13,780	159	2,240	-	17,317
Disposals and write-offs	(26)	(2,193)	(71)	(1,132)	-	(3,422)
Reclassifications	(9)	(11,964)	-	11,973	-	-
Balance as of 31 December 2010	28,326	254,550	3,221	26,417	-	312,514
Charge for the year	1,112	13,911	161	2,915	-	18,099
Disposals and write-offs	(191)	(1,507)	-	(3,555)	-	(5,253)
Reclassifications	-	(181)	-	181	-	-
Balance as of 31 December 2011	29,247	266,773	3,382	25,958	-	325,360
Net book value as of 31 December 2010	27,184	273,819	404	5,456	10,181	317,044
Net book value as of 31 December 2011	26,259	295,336	242	11,813	998	334,648
Net book value as of 31 December 2012	25,220	307,602	441	11,563	2,198	347,024

The depreciation charge of the Group's and Company's property, plant and equipment for the year ended 2012 amounts to LTL 18,178 thousand and LTL 18,099 thousand, respectively (2011: LTL 17,449 thousand and LTL 17,317 thousand respectively). The amounts of LTL 16,844 thousand and LTL 16,764 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.

As of 31 December 2012 part of the property, plant and equipment of the Group with acquisition cost of LTL 105,177 thousand (LTL 91,102 thousand as of 31 December 2011) and the Company – LTL 104,726 thousand were fully depreciated (LTL 91,102 thousand as of 31 December 2011), but were still in active use.

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

As of 31 December 2012 the sum of the Group's and the Company's contractual commitments for the acquisition of property, plant and equipment amounted to LTL 2.020 thousand (as of 31 December 2011 – LTL 4.931 thousand).

As of 31 December 2012 property, plant and equipment of the Group and the Company with the net book value of LTL 113,442 thousand (LTL 116,208 thousand as of 31 December 2011) was pledged to banks as a collateral for loans (Note 11).

The sum of Group's and Company's capitalized interest was equal to LTL 295 thousand in 2012 (2011: LTL 534 thousand). The capitalization rate varied from 1.99 percent to 2.8 percent in 2012 (in 2011 – from 3.52 percent to 5.79 percent).

As of 31 December 2012 the Group and the Company accounted for assets, not yet ready for use, amounting to LTL 917 thousand in the category Equipment and tools (LTL 1,025 thousand as of 31 December 2011).

5. Non-current accounts receivable

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Long-term loans granted to the Company's employees	45	43	45	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 as of 31 of December 2012 using 3.47 percent interest rate (as of 31 December 2011 – 7.26 percent). In 2012 effect of reversed discounting amounted to LTL 9 thousand (in 2011 – LTL 13 thousand). The reversal of discounting is accounted in the change of depreciation of realisable value of receivables line in the Group's and Company's statement of comprehensive income

As of 31 December 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

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
<i>Available-for-sale financial assets</i>				
Ordinary shares – unquoted	433	433	433	433
Impairment loss	-	(338)	-	(338)
Fair value of shares	433	95	433	95

Valuators performed the valuation of the assets of UAB Šilumos Ūkio Servisas, less than 19 percent of shares of which is owned by the Company, and determined a market value of the shares. As of 31 December 2012 a profit of change in fair value of shares was LTL 338 thousand (as of the 31st of December, 2011 the impairment loss was LTL 338 thousand). Impairment loss is accounted in the Group's and the Company's profit (loss).

7. Inventories

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Technological fuel	3,461	3,430	3,461	3,430
Spare parts	1,292	1,351	1,292	1,351
Materials	1,347	1,175	1,256	1,051
	<u>6,100</u>	<u>5,956</u>	<u>6,009</u>	<u>5,832</u>
Less: write-down to net realisable value of inventory at the end of the period	(1,854)	(1,210)	(1,854)	(1,210)
Carrying amount of inventories	<u>4,246</u>	<u>4,746</u>	<u>4,155</u>	<u>4,622</u>

As of 31 December 2012 Group's and Company's write-down to net realisable value of inventories amounted to LTL 1,854 thousand (LTL 1,210 thousand as of 31 December 2011). Changes in the Write-down to net realisable value of inventories for the year 2012 and 2011 were included into change in write-down to net realisable value of inventories caption in the Group's and the Company's statement of comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Trade receivables, gross	129,841	102,309	129,858	102,222
Less: impairment of doubtful receivables	(47,755)	(43,315)	(47,877)	(43,315)
	<u>82,086</u>	<u>58,994</u>	<u>81,981</u>	<u>58,907</u>

Of 31 December 2012 Group's and Company's receivables as include the factored receivables amounting to LTL 3.068 thousand, under the agreement with UAB Swedbank Lizingas, described in Note 11.

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:

	Group Impairment loss	Company Impairment loss
Balance as of 31 December 2010	41,886	41,886
Additional allowance formed	2,213	2,213
Write-off	(784)	(784)
Balance As of 31 December 2011	43,315	43,315
Additional allowance formed	5,827	5,949
Write-off	(1,387)	(1,387)
Balance As of 31 December 2012	47,755	47,877

In 2012 the Group and the Company wrote off LTL 1,387 thousand of bad debts (2011 – LTL 784 thousand). In 2012 the Group and the Company also recovered LTL 17 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 31 December 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	61,676	6,026	1,243	712	1,594	10,835	82,086
2011	45,908	10,462	1,241	1,072	311	-	58,994

The ageing analysis of the Company's net value of trade receivables as of 31 December 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	61,571	6,026	1,243	712	1,594	10,835	81,981
2011	45,821	10,462	1,241	1,072	311	-	58,907

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

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

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Taxes	3,535	2,660	3,535	2,660
Other receivables	3,126	3,423	3,318	3,561
Less: value impairment of doubtful receivables	(567)	(481)	(759)	(481)
	6,094	5,602	6,094	5,740

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

	Group Impairment loss	Company Impairment loss
Balance as of 31 December 2010	719	719
Additional allowance formed	6	6
Write-off	(244)	(244)
Balance As of 31 December 2011	481	481
Additional allowance formed	113	305
Write-off	(27)	(27)
Balance As of 31 December 2012	567	759

As of 31 December 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 (maintenance of manifolds and similar services).

The ageing analysis of the Group's net value of other receivables (excluding taxes) as of 31 December 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	2,451	44	51	11	2	-	2,559
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 31 December 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	2,451	44	51	11	2	-	2,559
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 September 2012	As of 31 December 2011	As of 30 September 2012	As of 31 December 2011
Cash in transit	4,181	3,684	4,181	3,684
Cash at bank	1,141	2,231	1,117	2,195
Cash on hand	10	21	10	20
	<u>5,332</u>	<u>5,936</u>	<u>5,308</u>	<u>5,899</u>

The Group's and the Company's accounts in banks amounting to LTL 459 thousand as of 31 December 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 percent of net profit calculated in accordance with IFRS are compulsory until the reserve reaches 10 percent 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 reversed 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 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Non-current borrowings	33,746	32,169	33,746	32,169
Current portion of non-current borrowings (except leasing which is disclosed in Note 12)	8,489	11,295	8,489	11,295
Current borrowings (including credit line)	24,563	7,765	24,563	7,765
Factoring with recourse agreement	3,068	-	3,068	-
Current borrowings	36,120	19,060	36,120	19,060
	69,866	51,229	69,866	51,229

Terms of repayment of non-current borrowings are as follows:

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
2012	-	11,295	-	11,295
2013	8,489	8,076	8,489	8,076
2014	8,761	8,076	8,761	8,076
2015	5,908	5,221	5,908	5,221
2016	4,188	3,313	4,188	3,313
2017	2,439	1,351	2,439	1,351
2018	1,944	871	1,944	871
2019	913	414	913	414
2020	640	323	640	323
2021	639	323	639	323
2022	640	323	640	323
2023	639	323	639	323
2024	640	323	640	323
2025	640	324	640	324
2026	640	323	640	323
2027	639	323	639	323
2028	640	323	640	323
2029	639	323	639	323
2030	640	323	640	323
2031	639	323	639	323
2032	640	323	640	323
2033	639	323	639	323
2034	639	324	639	324
	42,235	43,464	42,235	43,464

Average of interest rates (in percent) of borrowings weighted outstanding at the year-end were as follows:

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Current borrowings	1,01	1,73	1,01	1,73
Non-current borrowings	2,78	3,73	2,78	3,73

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

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Currency of the loan:				
EUR	39,765	39,728	39,765	39,728
LTL	27,033	11,501	27,033	11,501
	66,798	51,229	66,798	51,229

Detailed information on loans as of 31 December 2012:

Credit institution	Date of contract	Currency	Currency sum, thousand	Sum LTL thousand	Interest rate	Term of maturity	Balance as of 31.12.2012 LTL thousand	A part of 2013, LTL thousand
1. AB SEB Bank	2005.08.23	EUR	8,776	30,300	6 month EUR LIBOR + 1,9 percent	2014.12.31	5,000	2,500
2. Nordea Bank Finland Plc. Lithuanian branch	2006.12.01	LTL	6,000	6,090	3 month VILIBOR + 0,45 percent	2015.12.31	2,471	839
3. AB SEB Bank	2006.12.21	EUR	2,059	7,108	6 month EUR LIBOR + 0,4 percent	2016.11.30	1,286	395
4. AB DNB bankas	2007.11.14	EUR	576	1,989	12 month EUR LIBOR + 0,59 percent	2016.12.31	994	248
5. Danske Bank A/S Lithuania branch	2008.07.31	EUR	984	3,398	3 month EURIBOR + 0,385 percent	2018.12.31	1,963	350
6. Danske Bank A/S Lithuania branch	2008.07.31	EUR	1,158	4,000	3 month EURIBOR + 0,7 percent	2017.09.30	2,556	600
7. Swedbank, AB	2009.12.02	EUR	3,815	9,819	6 month EURIBOR + 3,5 percent	2016.12.02	4,439	1,203
8. Lithuanian Ministry of Finance	2010.04.09	EUR	2,410	8,323	3,948 percent	2034.03.15	6,139	-
9. Swedbank, AB	2010.06.21	EUR	649	2,240	6 month EURIBOR + 4,0 percent	2017.06.21	1,003	404
10. Nordea Bank Finland Plc. Lithuanian branch	2010.09.17	EUR	1,625	5,611	1 month EUR LIBOR + 0,7 percent	2016.05.31	3,379	989
11. Lithuanian Ministry of Finance	2010.10.26	EUR	807	2,788	3,948 percent	2034.03.15	2,526	-
12. AB SEB Bank	2011.02.11	EUR	1,031	3,560	6 month EUR LIBOR + 2,7 percent	2019.02.10	3,377	547

Credit institution	Date of contract	Currency	Currency sum, thousand	Sum LTL thousand	Interest rate	Term of maturity	Balance as of 31.12.2012 LTL thousand	A part of 2013, LTL thousand
13. Nordea Bank Finland Plc. Lithuanian branch	2011.04.19	EUR	921	3,180	1 month EURIBOR + 2,1 percent	2019.04.30	3,180	273
14. Lithuanian Ministry of Finance	2011.09.02	EUR	1,672	5,773	4,123 percent	2034.09.01	3,486	-
15. AB SEB Bank	2011.10.13	EUR	290	1,000	1 month EURIBOR + 1,9 percent	2019.11.30	436	141
16. AB DNB bank	2012.05.30	LTL	15,000	15,000	O/N+0,72 percent	2013.05.30	14,646	14,646
17. AB SEB Bank	2012.08.23	LTL	10,000	10,000	1 week. VILIBOR + 0,75 percent	2013.08.22	9,917	9,917
							66,798	33,052

On 24 October 2012 the Group and the Company signed a factoring with recourse agreement with Swedbank Lizingas, UAB amounted to the limit LTL 8,500 thousand. Factoring advance is 90 percent. The term of validity of agreement is 31 December 2013. Liability the factoring with recourse, amounting to LTL 3,068 thousand as of 31 December 2012 is accounted within the caption of current borrowings. The factoring bears 1-month VILIBOR plus 0.9 percent annual interest rate.

The immovable property (Note 4), bank accounts (Note 9) and land lease right of the Group and the Company were pledged as collateral for the borrowings.

According to the terms of the loan agreement with AB SEB Bankas (hereinafter – the Bank), the Bank may request to repay the loan before the maturity in case the covenants are breached. As of 31 December 2012 the Company breached the Net financial debt to EBITDA ratio and current financial liabilities to net working capital ratio. The management of the Company has informed the Bank about the breach of above mentioned covenants. The Bank confirmed in writing that due to the breach of these covenants it will not apply any sanctions foreseen in the agreements, therefore the management estimates that the loans, amounting to LTL 6,516 thousand as of 31 December 2012, will not be requested to be repaid before maturity, and were accounted for as non-current liabilities in the Group's and Company's statements of financial position.

12. Finance lease obligations

The assets leased by the Group and the Company under finance lease contracts mainly consist of vehicles. The terms of financial lease are 3 years. As of 31 December 2012 the interest rate on the financial lease obligations is fixed and is equal 4.4635 percent. The finance lease agreement is in EUR.

Future minimal lease payments were:

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Within one year	48	10	48	-
From one to five years	67	-	67	-
Total financial lease obligations	115	10	115	-
Interest	(6)	-	(6)	-
Present value of financial lease obligations	109	10	109	-

	Group	Company		
	As of 31	As of 31	As of 31	As of 31
	December	December	December	December
	2012	2011	2012	2011
Financial lease obligations are accounted for as:				
- current	44	10	44	-
- non-current	65	-	65	-

13. Grants (deferred income)

	Group		Company	
	As of 31	As of 31	As of 31	As of 31
	December	December	December	December
	2012	2011	2012	2011
Balance at the beginning of the reporting period	22,211	16,790	22,211	16,790
Received during the year	5,498	6,317	5,498	6,317
Amortisation	(1,163)	(896)	(1,163)	(896)
Balance at the end of the reporting period	26,546	22,211	26,546	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 V. Krėvės Ave. 82 A. 118 H, Kaunas) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 6,000 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 5,843 thousand by 31 December 2012. The project is completed.

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Modernisation of Kaunas City Integrated Network Centre Main (4T) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 5,990 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 4,414 thousand by 31 December 2012. The project is completed.

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius–Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,333 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 1,725 thousand by 31 December 2012. The project is completed.

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2012 financing in amount of LTL 1,426 thousand has been received. The project is completed.

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project The modernisation of Žaliakalnis main of Kaunas integrated network (4Ž) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,788 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 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 As of 31 December 2012 financial support in amount of LTL 1.489 thousand has been received. The sum of LTL 3 thousand is accounted as the amounts receivable in the financial statements of the Group and the Company.

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

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

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project The modernisation of Pramonė area main of Kaunas integrated network (1Ž) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,000 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2012 financing in amount of LTL 2.000 thousand has been received The sum in amount of LTL 43 thousand is accounted as the other amounts receivable in the financial statements of the Group and the Company.

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	2011	2012	2011
Employee benefit liability at the beginning of the year	2,406	1,830	2,406	1,830
Paid	(202)	(143)	(198)	(143)
Formed	1,093	719	791	719
Employee benefit liability at the end of the year	3,297	2,406	2,999	2,406
Non-current employee benefit liability	2,173	1,671	1,996	1,671
Current employee benefit liability	1,124	735	1,003	735

During the year 2012 total amount of the benefit paid to the employees by the Group amounted to LTL 202 thousand (in 2011 – LTL 143 thousand), and by the Company – LTL 198 thousand (in 2011 – LTL 143 thousand) and are included in the caption of salaries and social security expenses in the Group's and the Company's statement of comprehensive income.

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

	As of 31 December 2012	As of 31 December 2011
Discount rate	4.0 percent	7.0 percent
Employee turnover rate	18.9 percent	18.9 percent
Expected average annual salary increases	3.0 percent	3.0 percent

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 percent for a floating interest rate at 6-month EUR LIBOR. The nominal amount of the transaction was EUR 1,508 thousand (the equivalent of LTL 5,208 thousand) as at 31 December 2012 (EUR 2,172 thousand (the equivalent of LTL 7,500 thousand) as at 31 December 2011). Market value of swap agreement as of 31 December 2012 amounted to LTL 204 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 supplies, maintenance of manifolds, electricity production and other activities. Starting from the year 2010 a part of inhabitants chose the Company as the hot water supplier. Those activities are inter-related, so 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 income according to the activities are stated below.

	Group		Company	
	2012	2011	2012	2011
Heat supplies	362,667	302,842	362,728	302,893
Hot water supplies	4,818	3,725	4,818	3,725
Maintenance of manifolds	775	866	775	866
Maintenance of heat and hot water systems	721	1,289	399	515
Electric energy	460	568	460	568
Maintenance of hot water meters	282	55	282	55
	<u>369,723</u>	<u>309,345</u>	<u>369,462</u>	<u>308,622</u>

17. Other expenses

	Group		Company	
	2012	2011	2012	2011
Cash collection expenses	2,217	2,397	2,203	2,319
Equipment verification and inspection	1,490	1,651	1,487	1,640
Maintenance of manifolds	1,883	1,433	1,883	1,433
Debts collection expenses	917	1,171	917	1,171
Sponsorship	503	107	503	107
Consulting expenses	285	760	283	754
Customer bills issue and delivery expenses	455	476	455	476
Communication expenses	193	290	182	267
Employees related expenses	234	296	228	289
Insurance	223	222	213	215
IT maintenance and related services	173	183	161	166
Membership fee	281	275	281	275
Transport expenses	52	169	115	151
Advertising expenses	111	143	109	143
Audit expenses	56	103	52	99
Rent of equipment and machinery	32	37	18	14
Other expenses	1,147	948	1,120	1,022
	<u>10,252</u>	<u>10,661</u>	<u>10,210</u>	<u>10,541</u>

18. Other activities income and expenses

	Group		Company	
	2012	2011	2012	2011
Income from other operating activities				
Miscellaneous services	1,575	1,703	1,416	1,221
Materials sold	260	511	251	509
Gain from sale of non-current assets	92	6	91	6
Other	164	123	150	110
	<u>2,091</u>	<u>2,343</u>	<u>1,908</u>	<u>1,846</u>
Expenses from other operating activities				
Cost of miscellaneous services	(1,139)	(1,217)	(691)	(564)
Cost of materials sold	(29)	(10)	(7)	(10)
Write off of non-current assets	(12)	(52)	(12)	(52)
Loss from sale of non-current assets	(5)	(17)	(5)	(17)
Other	(8)	(38)	(8)	(34)
	<u>(1,193)</u>	<u>(1,334)</u>	<u>(723)</u>	<u>(677)</u>

19. Finance income

	Group		Company	
	2012	2011	2012	2011
Interest from late payment of accounts receivable	1,984	2,409	1,984	2,409
Fines	-	5,420	-	5,420
Impairment of non-current financial assets	338	-	338	-
Change in fair value of derivative financial instruments	129	146	129	146
Bank interest	11	22	11	22
Other	1	4	1	4
	<u>2,463</u>	<u>8,001</u>	<u>2,463</u>	<u>8,001</u>

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

20. Finance costs

	Group		Company	
	2012	2011	2012	2011
Interest on bank loans and overdrafts	(1,496)	(1,467)	(1,496)	(1,466)
Impairment of non-current financial assets	-	(142)	(587)	(359)
Penalties	(214)	(44)	(214)	(44)
	<u>(1,710)</u>	<u>(1,653)</u>	<u>(2,297)</u>	<u>(1,869)</u>

21. Income tax

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

	Group		Company	
	2012	2011	2012	2011
Profit before tax	2,535	14,760	2,195	14,662
Income tax (expenses) calculated at statutory rate	(380)	(2,214)	(329)	(2,199)
Permanent differences and impact of valuation allowance of deferred income tax asset	(959)	994	(1,029)	979
Income tax (expenses) reported in the statement of comprehensive income	<u>(1,339)</u>	<u>(1,220)</u>	<u>(1,358)</u>	<u>(1,220)</u>
Effective rate of income tax (percent)	52,80	8,27	61,87	8,32

	Group		Company	
	2012	2011	2012	2011
Components of the income tax expense				
Current income tax for the reporting year	-	-	-	-
Deferred income tax (expenses)	(1,339)	(1,220)	(1,358)	(1,220)
Income tax (expenses) recorded in the statement of comprehensive income	<u>(1,339)</u>	<u>(1,220)</u>	<u>(1,358)</u>	<u>(1,220)</u>

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

As of 31 December deferred income tax consists of:

	Group		Company	
	2012	2011	2012	2011
Net deferred income tax asset				
Tax loss carried forward	3,942	1,956	3,942	1,956
Accruals	494	566	475	566
The change in value of financial assets	112	51	112	51
Deferred income tax asset	<u>4,548</u>	<u>2,573</u>	<u>4,529</u>	<u>2,573</u>
Deferred income tax liability				
Differences of depreciation	(12,455)	(9,101)	(12,455)	(9,101)
Investment relief	(203)	(243)	(203)	(243)
Revaluation of the assets transferred to subsidiary	-	-	(669)	(669)
Deferred income tax liabilities	<u>(12,658)</u>	<u>(9,344)</u>	<u>(13,327)</u>	<u>(10,013)</u>
Deferred income tax, net	<u>(8,110)</u>	<u>(6,771)</u>	<u>(8,798)</u>	<u>(7,440)</u>

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

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

	Group		Company	
	2012	2011	2012	2011
Allowance for trade receivables	7,161	6,497	7,179	6,497
Property, plant and equipment depreciation	90	81	90	81
Allowance for other accounts receivable	82	72	111	72
Impairment for the investment into subsidiary	-	-	264	107
Unrecognized deferred tax asset, net	<u>7,333</u>	<u>6,650</u>	<u>7,644</u>	<u>6,757</u>

22. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2012	2011	2012	2011
Net profit	1,196	13,540	837	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)	0.03	0,32	0.02	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.

Number of customers

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Individuals	114,711	115,012	114,499	114,807
Other legal entities	2,110	2,153	2,055	2,063
Legal entities financed from municipalities' and state budget	365	374	333	339
	117,186	117,539	116,887	117,209

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

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Individuals	57,211	41,803	57,208	41,799
Other legal entities	10,387	8,278	10,330	8,262
Legal entities financed from municipalities' and state budget	14,488	8,913	14,443	8,846
	82,086	58,994	81,981	58,907

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

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

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
A	407	869	383	833
A+	674	1,264	674	1,264
AA-	29	30	29	30
Bank with no rating attributed	31	68	31	68
	1,141	2,231	1,117	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 borrowings of the Group and the Company, except those loans signed with Ministry of Finance of the Republic of Lithuania, 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 (estimating debts with floating interest rate). 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 income tax</u>
2012		
LTL	+200	(81)
LTL	-200	81
EUR	+50	(21)
EUR	-50	21
2011		
LTL	+200	(230)
LTL	-200	230
EUR	+50	(168)
EUR	-50	168

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as of 31 December 2012 were 0.85 and 0.81 respectively (0.96 and 0.90 as of 31 December 2011). The Company's liquidity and quick ratios as of 31 December 2012 were 0.85 and 0.82, 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.
- Considering the current situation the Group and the Company started to reduce its expenses.
 - The plan of reducing losses in production and supply is being currently implemented;
 - The analysis of cash flows is done regularly, the need of working capital is planned and organized.

Unsecured bank overdraft and bank loan facilities:

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Amount used	24,563	7,765	24,563	7,765
Amount unused	437	12,235	437	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 31 December 2012 and as of 31 December 2011 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,422	31,900	24,038	16,061	74,421
Trade payables	72,592	273	23	-	72,888
Balance as of 31 December 2012	75,014	32,173	24,061	16,061	147,309
	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	54,229	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 31 December 2012 and as of 31 December 2011 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,422	31,900	24,038	16,061	74,421
Trade payables	72,624	273	23	-	72,920
Balance as of 31 December 2012	75,046	32,173	24,061	16,061	147,341
	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 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
For heat purchased	55,308	37,885	55,308	37,885
Contractors	9,689	11,035	9,689	11,035
Other suppliers	7,891	6,044	7,923	6,117
	72,888	54,964	72,920	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 31 December 2012 the Group had an LTL 9,828 thousand of overdue trade creditors, and the Company – LTL 9,817 thousand. 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 pegged to euro, therefore, material foreign currency risk is not incurred.

Fair value of financial instruments

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

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

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

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

Categories of financial instruments:

Financial assets:

	Group			Company		
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2010	As of 31 December 2012	As of 31 December 2011	As of 31 December 2010
Cash and bank balances	5,332	5,936	3,574	5,308	5,899	3,524
Loans and receivables	88,225	64,639	77,903	88,120	64,690	77,822
Financial assets	433	95	237	433	95	237
	93,990	70,670	81,714	93,861	70,684	81,583

Financial liabilities:

	Group			Company		
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2010	As of 31 December 2012	As of 31 December 2011	As of 31 December 2010
Carried at fair value through profit or loss (level 2 in the fair value hierarchy)	204	333	479	204	333	479
Carried at amortised cost	142,842	106,203	121,565	142,874	106,266	121,517
	143,046	106,536	122,044	143,078	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, reconsider the dividend payment to shareholders, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management as of 31 December 2012 and 2011.

The Group and the Company is obliged to upkeep its equity of not less than 50 percent 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: as satisfactory performance indicators and as creditable performance indicators:

	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Non-current liabilities (including deferred tax and grants (deferred income))	70,665	63,014	71,176	63,683
Current liabilities	115,361	78,559	115,050	78,359
Liabilities	186,026	141,573	186,226	142,042
Equity	261,195	270,682	264,181	274,027
Debt* to equity ratio (percent)	71,22	52,30	70,49	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 to the Group's and the Company's main activity: increase in fuel prices, unfavourable law and legal acts of Government and other institutions, decisions of local municipality, decrease of number of consumers, the cycle of activity, environmental requirements.

More detailed information on risks is provided in Annual report.

24. Commitments and contingencies

Litigations

On 31 March 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 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 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 2011 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. On 11 December 2012 the Company presented an application to the Lithuanian Court of Appeal seeking to accelerate investigation of the case and to appoint a session. Further progress of the process is described in Note 26.

As of 31 December, 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.

The administration of Kaunas Municipality (hereafter – Municipality) has placed a claim on 31 August 2012 against the Company, its members of the Management Board (A. Augonis, G. D. Ašmys, K. Buinevičius, G. Čizikas, V. Mikaila, V. Rybelis) and the third person – KTE, asking the court to recognize the decisions of 9 August 2012 of the Company's Management Board regarding agreements with KTE as invalid. Also Municipality asks to recognize as invalid ab initio and agreements itself if they were concluded. A preparatory session of the court for this case is appointed on the 5th of February, 2013. Further progress of the process is described in Note 26.

On 24 September 2012 the smaller shareholder has placed a claim against the Company and Municipality administration asking the court to recognize as invalid the following resolutions of the Company's Extraordinary General Meeting of Shareholders of 17 August 2012 since their carriage (ab initio):

- To confirm terms of permission for AB Gazprom to transfer shares of KTE and of exemption from obligations terms of undertakings agreement following the terms indicated in the order No A-3042 of Head of administration of Kaunas city municipality "Regarding representation of municipality in Extraordinary General Meeting of Shareholders of the Company of 16 August 2012.
- To oblige the Management Board of the Company to present for confirmation to the Extraordinary General Meeting of Shareholders of the Company the final agreement regarding permission for AB Gazprom to sell shares of KTE and to exempt from obligations under undertakings agreement when such will be reached.

It is also requested in the claim to recognize as invalid the order No A-3042 of 16 August 2012 of Municipality administration "Regarding representation of municipality in Extraordinary General Meeting of Shareholders of AB Kauno Energija" and letter of attorney No R3-82 "Regarding representation of municipality in Extraordinary General Meeting of Shareholders of AB Kauno Energija" issued on its grounds. A preparatory session of the court for this case was appointed on the 16th of January, 2013. Further progress of the case is described in note 26.

Leasing and construction work purchase arrangements

On 18 March, 2010 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 of Group and the Company under valid purchase arrangements as of 31 December 2012 amounted to LTL 46,658 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	1,351	41,896	20,312	440
Jurbarkas city municipality	4	2,947	427	1
2011	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,668	33,199	16,103	255
Jurbarkas city municipality	4	2,278	19	50

The Group's and the Company's As of 31 December 2012 allowance for overdue receivables from entities financed and controlled by municipalities amounted to LTL 10,905 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	1,204	87	-	143
2011	1,206	112	299	157

As of 31 December, 2012 the Company has formed an LTL 314 thousand of common postponements for the receivables from subsidiary. As of 31 December, 2011 the postponements were not been formed.

Remuneration of the management and other payments

As at 31 December 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	528	523	417	416
	Group		Company	
	As of 31 December 2012	As of 31 December 2011	As of 31 December 2012	As of 31 December 2011
Calculated post-employment benefits	97	70	90	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

On 24 September 2012 the small shareholder of the Company applied a claim against the Company and the administration of municipality asking a court to recognize as invalid since the date of their acceptance (*ab initio*) the decisions of Company's extraordinary General meeting of shareholders of 17 August 2012, as it is described in note 24. On 10 January 2013 the small shareholder applied abandonment to the court. On 15 January 2013 the Company applied a response with no contradiction to claimants' abandonment.

On 11 January 2013 the Group and the Company signed a Memorandum of intent with Lietuvos energija, AB in order to continue a project of development of Petrašiūnai cogeneration power plant reconstruction.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3.5 MW capacity water boiler", according to which the financing in amount of LTL 1,791 thousand is provided for the Company from the funds of LEIF Climate Change Special Program when all the terms of agreement are implemented.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler", according to which the financing in amount of LTL 2,299 thousand is provided for the Company from the funds of LEIF Climate Change Special Program when all the terms of agreement are implemented.

Municipality administration has placed a claim on 31 August 2012 against the Company. A preparatory session of the court for this case was appointed on 5 February 2013. Municipality administration was obliged at this session to eliminate defects of the claim. Forasmuch defects were not eliminated until the determined term, the court made the decision on 27 February 2013, according to which a claim of Municipality was left untried.

On 4 March 2012 Ministry of Environment of the Republic of Lithuania approved a financing for the project "Reconstruction of Pergalė boiler-house, equipping it with smoke condenser" in amount of LTL 638 thousand by the decision No D1-181.

On 13 March 2013 KTE adduced to Company an evidence, i.e. an extract from securities account, saying that ownership of the shares of KTE owned by UAB Gazprom is transferred to Clement Power Venture Inc. since 7 March 2013. The changes of Agreement on Investments and of Heat Sales Contract of 31 March 2003 which were signed respectively on 13 August 2012 and 28 September 2012, as well as termination of Contract of Guarantee signed between Company and UAB Gazprom on 13 August 2013 came into force since that date. Following changes of Heat Sales Contract that came into force, Company obligation to purchase from KTE at least 80 percent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of LTL 350 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company investments in Company infrastructure in amount of LTL 10 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 percent forfeit from the value of unfulfilled investments and agreed to refuse the appeal in Vilnius Commercial Arbitration Court case No 203, and with no further litigation to pay to Company a fine in amount of a little bit more than LTL 7 million, adjudged from KTE in this case. KTE has already presented information that it already applied to Lithuanian Court of Appeal on 13 March 2013 regarding withdrawal of above mentioned claim, due to which a court still has not made a decision.

AB KAUNO ENERGIJA CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2012



AB KAUNO ENERGIJA
Company code 235014830
Raudondvario Rd. 84, 47179 Kaunas, Lithuania

Translation note

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

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

Following Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we hereby confirm that, to the best of our knowledge, the Consolidated Annual Report reviewed by auditors and the audited Set of Consolidated Financial Statements for the year 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, profit or loss and cash flows of the Company and all the consolidated companies, and that the Consolidated Annual Report for 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.

AB Kauno Energija General Manager

Rimantas Bakas



AB Kauno Energija Chief Accountant

Violeta Staškūnienė



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1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Annual Report of AB Kauno Energija has been prepared, is the year 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
Fax number:	(+370 37) 305 622
E mail:	info@kaunoenergija.lt
Webpage:	www.kaunoenergija.lt
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 av. 347, 49423 Kaunas
Code of the legal person:	300580563
Telephone number:	(+370 37) 305 959
Fax number:	(+370 37) 311 877
E-mail:	info@kaunoenergija.lt
Webpage:	www.p-p-p.lt
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).

Starting from 1 May 2010 the Company supplies hot water (carries out hot domestic water supplier activities) for part of multifamily residential buildings in Kaunas and Jurbarkas cities and Kaunas region (hereinafter the supplies of heat and hot domestic water referred to as the heat). As of 31 December 2012 AB Kauno Energija was a hot water supplier for 187 houses in Kaunas, 3 in Kaunas region and 5 in Jurbarkas. Income from hot water supplies activities amounts to approximately 1.3 per cent of all 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, maintains engineering structures (collectors – manifolds), operates a heat and



electricity production sources. The Group and the Company carries out a supervision of indoor heat and hot water supply systems, maintenance of heat points equipment, repairs of buildings and constructions, repairs of heat points and other heating equipment, provides rental services of transport and premises, and other services to individuals and legal entities in relation to the supervision and maintenance of heat economy. The Group and the Company are engaged in licensed activity in accordance with the licenses held.

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

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

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

As of 31 December 2012, the 20,031,977 (twenty million thirty one thousand nine hundred seventy seven) of Issuer's ordinary registered shares (security's 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. The beginning of listing of Company's shares id 28 December 1998.

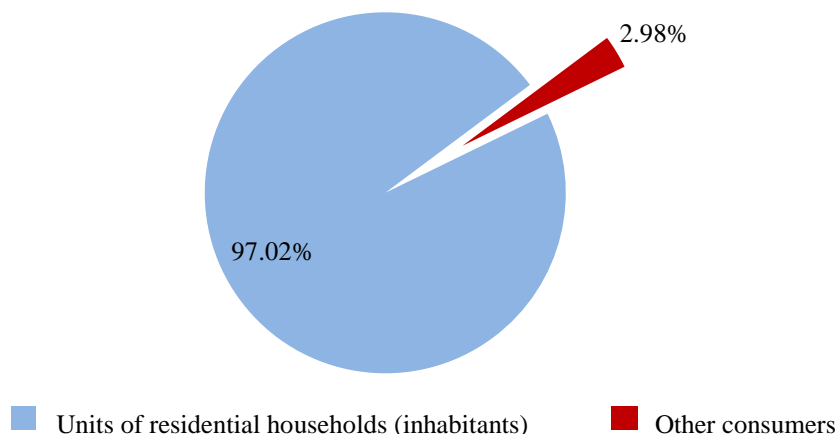
6. Objective overview of the state, performance and development of the group of companies, and description of exposure to key risks and uncertainties

6.1. Company's state, performance and development overview

The Company covers a major part of heat supply market in Kaunas and in Jurbarkas. As of 31 December 2012 3,525 companies and organizations and 114,579 units of residential households (inhabitants), totally – 118,104 consumers (objects by addresses) were connected to the integrated and local heat supply networks of the Company. 8 new consumers were connected to the Company's heat supply networks in 2012, the total installed capacity of whose contains 8,022 MW. Repartition of consumers is shown in Chart 1.

Chart 1

Repartition of Company's heat consumers by groups



The vision of the Group and the Company is to be modern, effective, competitive, and value creating group of companies engaged in heat and electric energy production, supply and distribution and in maintenance of buildings and indoor heating and hot water supply systems. Maintenance of buildings and indoor heating and hot water supply systems is performed following provisions of Chapter 20 of the Law on Heat Sector.

The values of the Group and the Company:

- 50 years of experience in heat production and supplies business;



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

The strategic goals of the Group and the Company:

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

The Company continued its activities in 2012 following strategic guidelines of Kaunas city central heat supplies, which were approved by the decision No T-236 of Kaunas city council of 7 April 2011 "Regarding strategic guidelines of Kaunas city central heat supply" and following Strategy of Kaunas city central heat supplies accepted by the decision No T-626 of Kaunas city council of 14 November 2012 "Regarding approval of Strategy of Kaunas city central heat supplies". This strategy is prepared estimating strategy, prepared by Lithuanian Energy Institute "A renewed strategy of AB Kauno Energija for development of heat supplies system for the period of 2007 – 2020". A necessity of more extensive use of renewable sources in Company's heat production sources is emphasized.

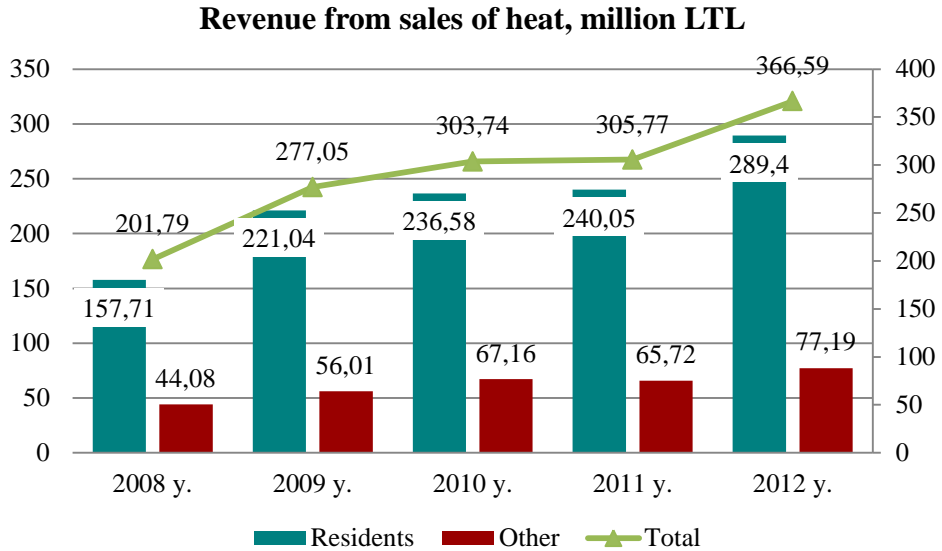
When preparing development guidelines it is also considered to the strategy of AB Kauno Energija for development of heat supplies system for the period of 2007 – 2020. The Company continues to implement projects of change of main pipelines, partly financed by European Union structural funds, optimizes diameters of pipelines, connects new consumers to central heating networks and modernizes heat production sources. As new period (2013 – 2016) of basic heat price regulation approved by the National Control Commission for Prices and Energy (hereinafter – NCC) started and as the regulating environment has changed, the Company reoriented activity development guidelines and predicts to orient the most part of investments to development of new heat production sources and modernization of existing sources in order to reduce expenses of heat production.

It is planned to install a biomass burned boiler with capacities up to 44 MW of heat and with up to 16 MW of electric power steam turbine following the "Petrašiūnai Power Plant Business Plan" prepared by Kaunas University of Technology in 2013 – 2015.

In 2012, the Group's net profit was LTL 1,196 thousand, Company's – LTL 837 thousand. Income from Group's main activities was LTL 369,723 thousand, Company's – LTL 369,462 thousand. The main part of income was received from sales of heat: Group's – 99.14 percent, Company's – 99.22 percent.

Company's income from sales of heat reached LTL 366.586 thousand and comparing to 2011 it increased by 19.89 percent (Chart 2).



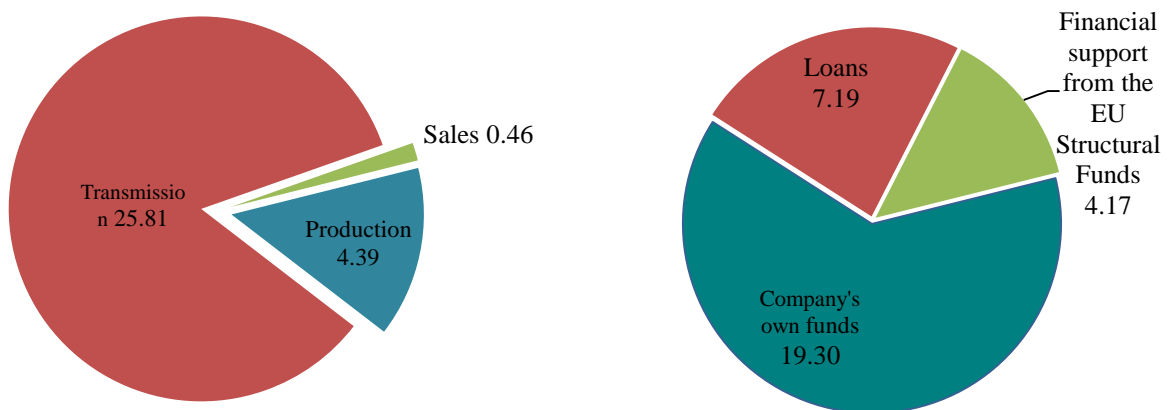


Company's investments into modern technologies (reconstruction of heat production sources, equipping them with condensers, automation of boiler-houses of isolated and integrated networks, e-services system for customers, distant heat meters' data transfer and processing system, modern customer servicing system based on 'One Call' principle), reconstructions of heat supply networks helps the Company to quickly adapt to changes in the market and to become an innovative company engaged in heat and hot water supply as well as in heat production sources maintenance in Kaunas and Jurbarkas cities and Kaunas region.

During 2012, the Company invested LTL 30.66 million (funds from other sources are among them, i.e. LTL 7.19 million represent loans of commercial banks, LTL 4.17 million represent financial support from the European Union Structural Funds), from which LTL 1.76 million, i.e. approximately LTL 1 million more than in 2011, was allocated to connect 8 new consumers to the central heat supply networks with total capacity of 8.022 MW. During 2012, the invested funds were used to build 1.496 km of new heat supply networks, and to reconstruct and renew 7.97 km of already existing heat supply networks. The Company's investments are illustrated in Chart 3.

Chart 3

Implementation of coordinated investments by headings and sources, LTL million



The change of amount of investment used by Issuer in period 2007-2012 reflects the evolution of national and European Union macro-economic processes: in 2007 Company used LTL 29.12 million, in 2008, in the beginning of an economic slowdown processes the amount of investments decreased to LTL 27.4 million, in 2009 investments reached just LTL 20.634 million. In 2010 investment performance amounted to



LTL 30.242 million. In 2011 investment performance increased by 16.2% (compared to 2010). In 2012 compared to 2011 amount of investments has changed marginally and amounted to LTL 30.661 million. Such an increase in investments can be related to the growth of profitable Company's activity, sub-investment from the European Union structural funds, the improvement of credit terms (interest rate stabilization), the country's economic recovery following the recession and optimistic expectations.

As the regulation settings has changed and as the National Control Commission for Prices and Energy (hereinafter – Commission) determined new components of Company's heat price for the first year of basic price validity on 24 January 2013, the Company prepared and started to implement a new projects of modernization of heat production sources of Kaunas integrated network. The main projects are installation of condensers (economizers) in existing heat production sources and development of bio-fuel burning projects.

Changes in Law on Heat Sector of the Republic of Lithuania and changes in NCC's regulation set favourable conditions to invest to construction and reconstruction of heat production sources, thus increasing competition in heat production sector and effectively reducing heat price for consumers.

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

6.2. Description of exposure to key risks and uncertainties we confront with and their impact on Company's results

External risk factors making an impact on the main activity of the Company include: inflation, increasing in fuel prices, unfavourable and often changing laws, governmental legislation and orders of other institutions, methodology interpretation, heat production price policy, which is under the influence of the past main shareholder of UAB Kauno termofikacijos elektrinė, who owned this company until 7 March 2013, regarding procrastination of investments implementation while a serious competitive environment in Kaunas heat production sector is absent, also amount of consumer's investments to heat saving and rational consumption implementing renovation of buildings.

The Company seeking to act efficiently and reliably in order to create an additional value for shareholders faces typical for its activity threats, but it also uses possibilities to act efficiently and reliably using existing potential. One of the most threats which can be faced by the Company – conditionally high price of heat purchased from unregulated independent heat producers, which is regulated by schedule of order of heat purchase from independent heat producers.

Economic factors: the Company engages the major centralized heat supplier's position in Kaunas and Jurbarkas city. In order to retain it, it is important for the Company to adapt to the changing energy supply conditions, further implement modern and efficient technologies into heat production sector, focusing on the reliable supply at the minimal expenses and quality services to the consumers.

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

The dynamics of consumers' connections and disconnections is provided in Table 1.



	2008, capacity MW	2009, capacity, MW	2010, capacity, MW	2011 capacity, MW	2012 capacity, MW	2008–2012, capacity, MW
Consumers disconnections	2.374	1.95	1.10	3.183	2.242	10.849
Consumers connections	11.82	1.29	10.14	2.02	8.022	34.170

8 new consumers were connected to Company's heat supplies network during the year 2012. 4 big among them: a new supermarket in Jonavos str., offices building in Islandijos rd. near supermarket "Mega", new supermarket in Siaurės av. and Science, study and business centre of Kaunas University of Technology. An installed capacity of heat equipment of just these four objects exceeds 6.5 MW. A total installed capacity of objects connected to central heating network during 2012 amounts to more than 8.022 MW.

Not only business objects were connected to central heating network last year. This way of heating was chosen by builders of newly built complex of blocks of flats, situated in K. Baršausko str. 66.

Consumption decreasing risks: the result of Company's activity is impacted by decrease of sales which in turn is impacted by decreased heat demand, which is determined by renovation of buildings and higher average outdoors temperature during heating season, an increase in fuel prices, consumer's disconnections. Risk can be decreased with Company's investments in heat and electricity production equipment using renewable energy sources, thus decreasing heat production costs, by educating consumers about advantages of central heating systems compared to self-contained heating.

Financial – economical risks: a decrease of consumer's solvency and debts. Risk can be decreased by factoring debts and applying more strict methods / ways of customers' debt collection. The other possible financial / economical risk is a change of interest rates in bank market. Risk can be decreased by borrowing in other currencies.

Inflation and slow economic growth, as well as small heat consumers' incomes increase consumers' indebtedness. The debts of consumers increased by 39 percent in the year 2012 compared to the year 2011 from LTL 58.907 thousand in 2011 to LTL 81.981 thousand in 2012. This was determined by heat price increase due to the increased prices of natural gas. It also increased the debts of education and other institutions financed from the budget of Kaunas city municipality. A schedule of debt repayment in amount of LTL 10 million has been concluded in 2012, predicting to start the repayment in 2014.

Seeking to collect these debts as soon as possible, the Company actively uses various measures of debts management, cooperates with debts management companies and implements other new unconventional measures.

In all occasions the Company informs a customer about the debt first. Primarily it is done in bills, subsequently, especially if the customer does not refer to the Company, separate notifications are being sent, debtors are contacted by the telephone or by visiting them at their residences by Company's specialists.

The Company organises systematised debts management actions "Don't be indebted!", "I'm not indebted!" during which the Company's employees along with representatives of buildings administrating companies stick a notifications at the doors of stairwells, informing that there are consumers in their house indebted for heat and prompting to repay the debts. Also it is stated in all Company's notifications, where to refer and what to do in order to repay the debt as soon as possible.

If the debtors react to notifications and contact the Company, the possibilities of debt repayment are discussed. Documents ensuring debt refunding are being signed. If all those measures are used, but the debt nonetheless is not repaid or if debtor does not react to notifications or contact the Company, it is transferred to the court for the debt adjudgement. In that case debtor must pay not only the debt, but also costs of the court and administration expenses.



Data of debtors avoiding to settle in time is disposed in the order determined by legal acts to debtor's administration informational system "Creditinfo", in which all its participants (various services providers) are able to see and to evaluate solvency of one or another person. A debtor involved in this database is assigned to untrustworthy payers group and some difficulties can arise to him in the future seeking to get a loan or conclude a lease agreement or, for example, seeking to become a subscriber of a mobile network.

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

The competition between other gas and electricity supply companies and the Group and the Company results in the disconnections of the consumers from the district heating system (during 2012 – 2.242 MW) and choosing alternative heat sources (gas, electricity or other types of fuel). The disconnections of heating facilities from centralised heat supply system and the change of heating mode is implemented following order determined by the Civil Code of Republic of Lithuania, Law on Heat Sector, Law on Construction and by legal acts implementing these laws. The disconnections of heating facilities are regulated by the Regulations of Heat Supply and Consumption (Žin., 2010, Nr. 127-6488) approved by the order No 1-297 of 25 October 2010 of Minister of Energy of the Republic of Lithuania and the modification of them (Žin., 2011, Nr. 97-4575) approved by the order No 1-191 of 20 July 2011 and the Schedule of order of heat consumer facilities disconnection from heat supply system initiated by consumer, approved by the order No A-1830 of 14 May 2012 of Kaunas City municipality administration director.

The Group's and the Company's activity suffers from seasonality. During the heating season (October to April) the major part of revenue is earned from main activity, whereas during the non-heating season, the Company's revenue is lowest because the heat is used only for hot water preparation. However, the Group and the Company have more expenses because they have to prepare for the heating season (reconstruction and maintenance works are being implemented in the heat supply networks and boiler-houses, indoor engineering systems).

Political - legal factors: it's a government implemented energy politics and its view to a heat supply activity. This kind of activity is regulated by Law on Heat Sector, Law on Energy, Law on Electric Energy, Law on Natural Gas, Law on Drinking-water Supply and Sewage Handling, Government decisions, Regulations of Heat Supply and Consumption, Methodologies of heat prices determination and of payments for heat consumption, determined by The National Control Commission for Prices and Energy and other legal acts. Quite frequent their changes have an impact on heat supplying companies' activity. After a changing of legal acts, heat suppliers often have to reorient priorities of their activity, change investment plans and implement structural changes. These in turn are additional expenses.

Approximately 240 legal acts has been changed or supplemented, or accepted new ones during the year 2012, which are related to heat supply activity more or less.

Since the new amendments of the law No XI-1608 of change and complement of chapters 2, 3, 20, 22, 28, 31, 32 of the Lithuanian Law on Heat Economy came into force on 1 November 2011, according to the 7 chapter "No expenditures, coherent to buildings indoors heating and hot water supply systems (including heating substation facilities) can be included in heat and hot water prices". Starting from 1 November 2012 all these expenditures directly decrease the Company's profit as the Company has invested LTL 61.8 million in renovation of heat points.

The final term until which the consumers following these new amendments in law had to choose other supervisor of buildings heat and hot water supply systems, unrelated with heat supplier supervisor, expired on 1 July 2012. This prohibition accepted by the law is not applied in localities with less than 50 thousand inhabitants if the municipality council doesn't decide otherwise.



Also political decisions of Kaunas city municipality, holding the main block of shares of the Company can be mentioned among political – legal factors having an influence on election of members of Company's Supervisory Board, who are often influenced by politicians who elected them, and who appoint members of Company's Management Board. The risk can be decreased by informing the main shareholder on Company's activities and by depoliticizing of formations of Management Board.

Key exposures to financial risks and uncertainties of the Group and the Company are disclosed in Notes 2.25, 2.26 and 23 of the Consolidated and the Company's Financial Statements.

Social factors. Social factors which had an impact on Company's activities last year were: a decrease of number of consumers, small increase of real consumer's income (purchasing power), unemployment, limited possibility to provide heat from other sources and formation of negative public opinion about the central heat supplies and Company. Over the last few years increasing fuel and heat prices had also become a social factor contributory to decrease of people's real income.

The decrease of number of consumers in the year 2012 was determined by persisting emigration and disconnections of consumption equipment from central heat supply system. During the year 2012 the number of Company's consumers (payers) decreased by 322, from 117,209 to 116,887. However 8 new consumers were connected to the Company's heat supply network in the same period. The total consumption capacity of them is 8.022 MW. If accounted by consumption capacity, heat consumption even increased.

Unabated unemployment, small income of employed and pensioner's determines that when consumer's goods become more expensive, the debts of them increase. It gets more difficult for the Company to implement its activities and it needs to get loans from banks to maintain working capital.

Social risks: Company's activities are important to most of inhabitants and entities of Kaunas region due to the conditionally high payments for heat and hot water and due to the certainty of quality services and paying attention to consumers. This risk can be decreased by educating of consumers and by informing them on Company's activities. The complaints received by the Company mostly relate to the amounts billed. In order to solve their complaints service specialists work with consumers, consult them in Company's premises or by telephone, respond to their complaints in written or by e-mail. Heat consumers periodically, i.e. 3 – 4 times per year are invited to the meetings where the consumer actual issues related to the Company's activity are discussed.

Technical-technological factors. The most significant internal risk is caused by the heat supply systems and their current condition. The most part of main pipelines, situated under the city is about 30 years old. The most vulnerable places are detected during the hydraulic tests. Approximately 300 vulnerable places are detected annually. Fractures can happen in those places. When defects are detected, pipes are excavated and repaired expeditiously.

Along with repair of pipelines other maintenance works are implemented. Leaky closing armature (valves), with which supply of heat carrier is disconnected for parts of the city, are changed annually in heat chambers. These works are implemented from Company's depreciation expenses.

The main heat supply networks are reconstructed in most obsolete places using European Union funds. During the year 2012, 2 reconstruction projects of main heat supply networks were implemented: "Modernization of Pramonė district main (1Ž) of Kaunas integrated network" and "Modernization of Dainava district main (1T) of Kaunas integrated network". For reconstruction of Pramonė main, situated in Petrašiūnai district LTL 2 million of European Union structural funds were used. For reconstruction of Dainava district main – LTL 1.489 million. Total value of each project was LTL 5.51 million and LTL 3.07 million respectively.

Industrially (polyurethane-foam) isolated pipes, for which there is no need for ferro-concrete channels are mounted in reconstructed segments of mains. Losses of heat in these segments remain notably small (technological level), and the pipelines itself do not create a threat of fractures and a reliable heat supply for consumers become certain.



Technical risks in heat production sources also show mostly because of age of boilers. Repairs of boilers and prophylactic works are implemented annually during non-heating season. Also the Company invests to renewal of production sources. Modernization of production sources and investments in them are more detailed described in Chapters 5 and 7.

Therefore, technological risk can be decreased by reconstructing heat production sources and supply pipelines, using the most advanced technologies and increasing this way the effectiveness of heating system. Furthermore, the local standards and legal acts coordinated with the European Union standards and legal acts in the field of regulation of qualitative and technical data of operation of heat supply systems oblige the Company to make significant investments into modernization of the Company's asset. The economic position of the Company still influences insufficient investments into reconstruction of heat supply networks, renovation and rehabilitation of the equipment and development of the Company.

Ecological factors. In respect of the Company they can be divided into making an impact on the Company and impacted by Company.

In order not to evoke negative impact on environment and not to exceed limited values of pollution, vibration and noise the Company follows the requirements of the Kyoto Protocol, Helsinki Commission (HELCOM) and the Helsinki Convention for environmental limitations, Directive 2001/80/EC of the European Parliament and of the Council, pollutant emissions overrunning permissible LAND 43-2001 normative for the use of natural resources, for the emissions of combustion products and of certain pollutants emitted into the air. The main Company's sources of pollution are: burning of fossil fuel in Company's heat production sources and effluent, used in technological processes.

The Company pays taxes for the atmosphere and water pollution every year. According to laws of Republic of Lithuania fines are paid if the allowable norms of permitted pollutions and yearly limits have been exceeded. No trespasses related with pollution were recorded neither Company fined during the year 2012.

The main measures adopted by the Company for the reduction of emissions are as follows: modernization of heat production sources, reduction of the heat transmission losses through the installation of pipes with the polyurethane-foam insulation, implementation of new technological equipment and improvement of the existing ones, use of more environmentally friendly fuel and constant monitoring of pollution levels (in 2012 balance of fuel, natural gas dominates – 91.89%, peat – 3.95%, biogas – 1.27%, wood residues (sawdust, cutting) – 2.88%, diesel – 0.01%).

Repayment of bank loans: Detailed information is presented in the AB Kauno Energija Consolidated and the Company's Financial Statements for the year 2012, Note 11. The Group and the Company repay loans to banks within due time.

As Company's heat supply networks are utilised approximately 30 years, one of the most important goals of the Company is to renew these networks. Every year a significant part of funds, committed to renewal of economy is borrowed, because own funds, i.e. accumulated depreciation and amortization are not enough in order to implement a necessary investment program. Loans' instalments, Paid back to banks (the proceeds were used for implementation of investment program), are not accounted in heat price as price component according to a valid methodology. This is why the Company seeks to earn a profit, in order to be financially able to settle with credit institutions under the loan agreements in time.

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

It was planned, that in 2012 main activity sales revenue will be major and sales quantity of heat will be at similar level as in 2011. In 2012 main activity sales revenue compared with 2011 increased by 19.7 percent. This change was mainly caused by higher price of heat, the main part of it contains of fuel component. The average price in 2012 was 29.33 ct/kWh and was at 18.17% higher than average price of 2011 which was 24.82 ct/kWh. Heat sales volume in 2012 compared to 2011 was 1.46 percent bigger, and the average annual temperature was lower (0.77 °C). During the 2012 heating season the average outdoor temperature was -1.15 °C, and in 2011 – (-0.25 °C).



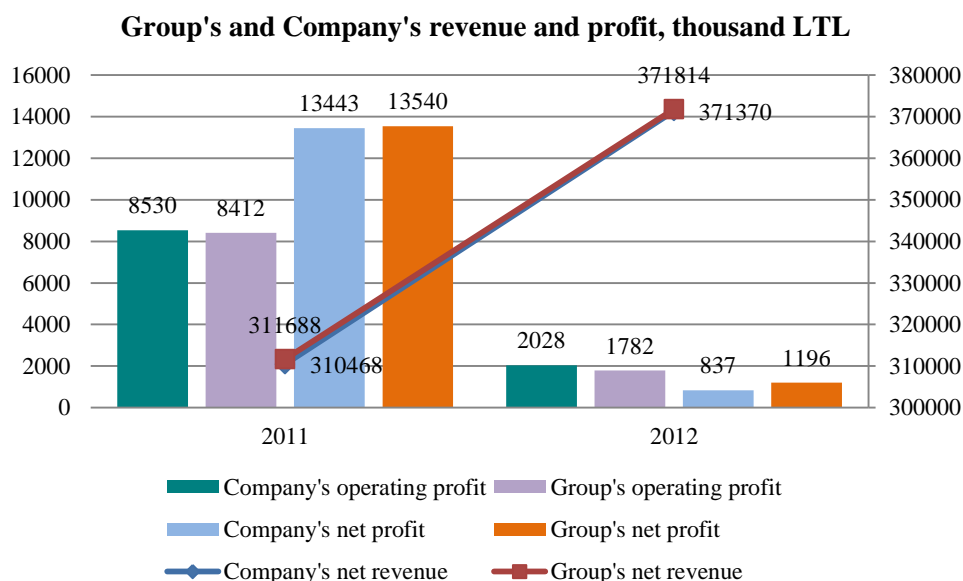
The comparison of financial ratios for 2012 with the ones for 2010 – 2011 is given in Table 2 below.

Table 2

No.	Financial ratios	Company 2010	Group 2010	Company 2011	Group 2011	Company 2012	Group 2012
1	Net profitability, % (net profit /sales and services)*100	1.2	1.4	4.4	4.4	0.2	0.3
2	Return on tangible assets, % (net profit/average value of tangible assets)*100	1.2	1.3	4.1	4.1	0.2	0.4
3	Debt ratio (liabilities /assets)	0.37	0.37	0.34	0.34	0.41	0.42
4	Debt-to-equity ratio (liabilities / equity)	0.6	0.6	0.5	0.5	0.7	0.7
5	General liquidity ratio (short-term assets /short-term liabilities)	0.93	0.93	0.97	0.96	0.85	0.85
6	Asset turnover ratio (sales and services/ assets)	0.74	0.75	0.74	0.75	0.82	0.83
7	EBITDA (earnings before interest, taxes, depreciation and amortization) LTL thousand	25.974	26.577	33.009	33.246	20.814	21.239
8	Gross profit margin (gross profit/sales and services)*100	2.3	2.4	2.4	2.4	0.2	0.2
9	Return on equity (ROE) % (net profit/average equity)*100	1.4	1.6	5.0	5.1	0.3	0.4
10	Return on assets (ROA) % (net profit/ average assets)*100	0.9	1.1	3.3	3.3	0.2	0.3
11	Quick ratio((short-term assets-inventory)/short-term liabilities)	0.88	0.88	0.91	0.90	0.82	0.81
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.04	0.04	0.08	0.08	0.05	0.05
13	Net earnings per share (net profit/average weighted number of shares in issue)	0.09	0.10	0.31	0.32	0.02	0.03
14	Net profit, LTL thousand	3,737	4,167	13,442	13,540	837	1,196
15	Assets, LTL thousand	410,541	406,762	416,069	412,255	450,407	447,221
16	Equity, LTL thousand	260,585	257,142	274,027	270,682	264,181	261,195
17	Equity per share, LTL	6.1	6.0	6.4	6.3	6.2	6.1
18	Revenue from sales, LTL thousand	305,441	306,856	308,622	309,345	369,462	369,723
18.1	Heat energy	302,602	302,546	302,893	302,842	362,728	362,667
18.2	Electric energy	349	349	568	568	460	460
18.3	Supervision of indoor heating and hot water supply systems, heating substation facilities	566	2,037	515	1,289	399	721
18.4	Income from emission permits and maintenance of collectors	439	439	866	866	775	775
18.5	Hot water supply	1,485	1,485	3,725	3,725	4,818	4,818
18.6	Income from maintenance of hot water meters			55	55	282	282
19	P/E ratio (the last share market price of the year /(net profit/number of shares at year-end)	23.68	21.24	3.84	3.82	101.90	71.32
20	Share capital, LTL thousand	256,392	256,392	256,392	256,392	256,392	256,392
21	Share capital-to-assets ratio	0.62	0.63	0.62	0.62	0.57	0.57
22	Return on equity (capital) (net profit/ capital and reserves)*100	1.5	1.6	5.2	5.2	0.3	0.5



The comparison of the Company's financial results for 2012 (sales revenue, operating profit, net profit) with those for 2011 is given in Chart 4. Chart 4



Company's heat supply losses at the comparative amount remained similar as in 2011, but due to the increased price, in monetary expression increased approximately in LTL 11,142 thousand, notwithstanding in amount value it decreased in 7 thousand MWh.

Company's profit decreased also due to the expenses of Company owned individual heat points maintenance (exploitation), which following amendments of the law No XI-1608 of change and complement of chapters 2, 3, 20, 22, 28, 31, 32 of the Lithuanian Law on Heat Economy came into force on 29 September 2011, according to the 7 chapter "No expenditures, related to buildings indoors heating and hot water supply systems (including heating substation facilities) can be included in heat and hot water prices". Starting from 1 November 2011 all these expenditures are not accounted in heat selling price.

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

The comparison of non-financial indicators for 2012 with the ones for 2010 - 2011 is given in Table 3 below.

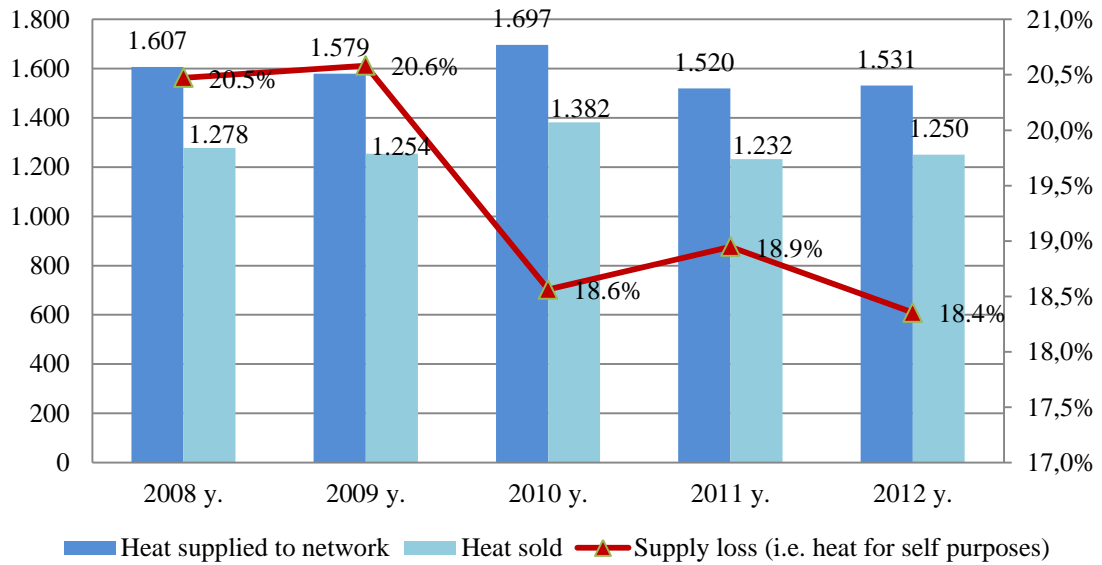
Table 3

No.	Non-financial indicators	Measure units	Company 2010	Group 2010	Company 2011	Group 2011	Company 2012	Group 2012
1.	Energy produced and purchased: from which supplied to the network	thousand MWh	1,698.0	1,698.0	1,521.8	1,521.8	1,532.9	1,532.9
1.1.	Heat energy	thousand MWh	1,696.7	1,696.7	1,519.8	1,519.8	1,531.4	1,531.4
1.2.	Electric energy	thousand MWh	1.3	1.3	2.0	2.0	1.5	1.5
2.	Energy sold	thousand MWh	1,383.2	1,382.9	1,233.9	1,233.7	1,251.4	1,251.2
2.1.	Heat energy	thousand MWh	1,381.9	1,381.6	1,231.9	1,231.7	1,249.9	1,249.7
2.2.	Electric energy	thousand MWh	1.3	1.3	2.0	2.0	1.5	1.5
3.	Heat supply networks reconstructed	m	6,030	6,030	8,990	8,990	7,970	7,970
4.	Heat supply networks newly constructed	m	2,470	2,470	1,317	1,317	1,496	1,496
5.	Maintenance of indoor heating and hot water supply systems (area maintained)	m ²	235.796	870.780	198.786	398.520	96.617	224.189



Chart 5

Heat supply to network (thousand MWh and comparative loss (%))

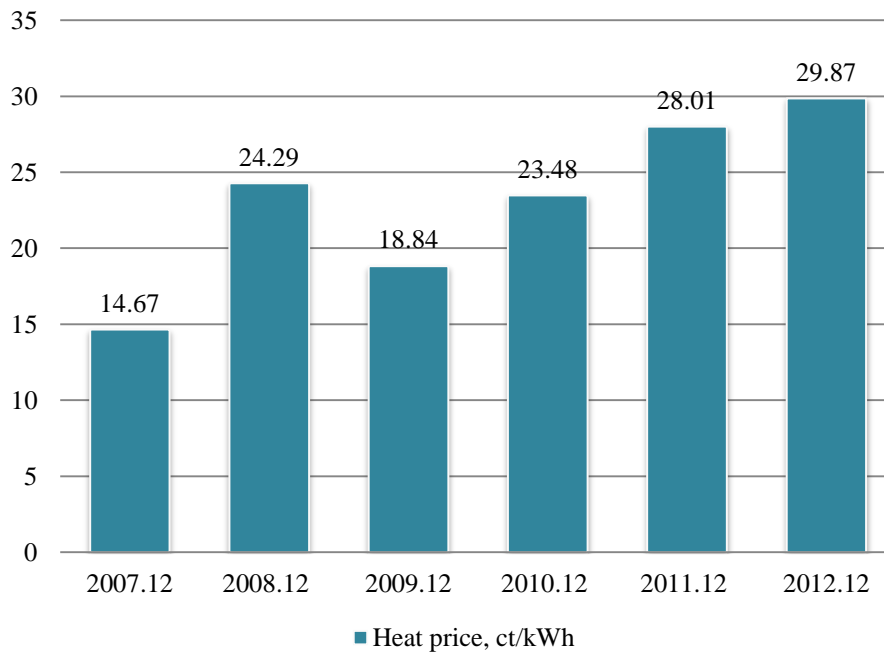


Environmental impact on operation. The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumers' investments into renovation of buildings, heat saving and rational consumption, increased or decreased average outdoor temperature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

The change in the prices of heat supplied by the Company during 2007 to 2012 is presented in Chart 6.

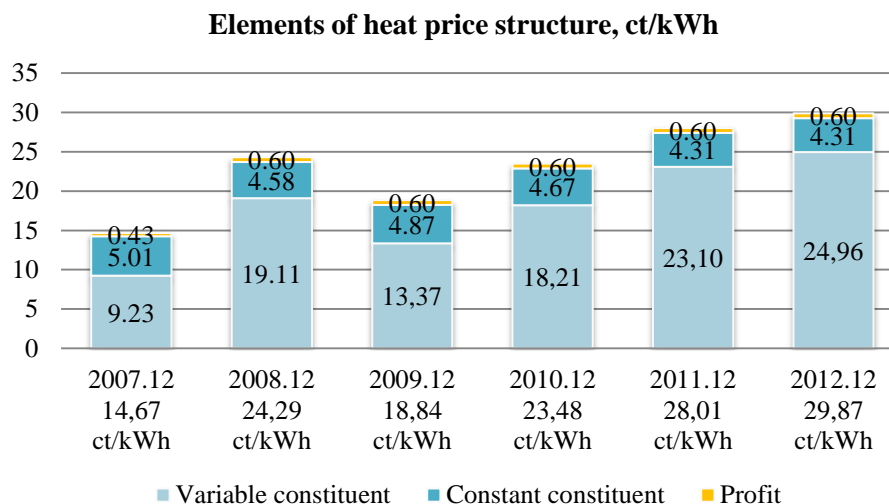
Chart 6

Price of the heat supplied by Company, ct/kWh



Elements of Company's heat price structure during 2008 – 2012 are given in Chart 7.





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

Waste management: the Group and the Company have implemented the processes relating to internally-generated waste collection, sorting and transfer to waste management entities, i.e. companies that have waste management licenses. During 2012, the Group and the Company transferred for recycling 110.015 tons of mixed household waste, 1 ton of electric and electronic equipment waste, 262.34 tons of scrap and 0.7 tons of used tires.

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

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

Table 4 below contains the comparison of quantities of pollutants released to atmosphere from the Company's stationary air pollution sources during 2012, with 2009 – 2011.

Table 4

Type of pollutant	Solid particulate matters	Nitrogen oxides	Carbon monoxide	Sulphur dioxide	Hydro-carbon	Vanadium pentoxide	Other
Emitted in 2012, t	7.6130	54.3160	135.1510	6.0280	1.2080	0.0000	0.4397
Emitted in 2011, t	7.2641	57.0909	125.3107	6.1983	3.0555	0.0000	0.4397
Emitted in 2010, t	8.4833	65.8444	146.8925	7.3386	2.6571	0.0000	0.4397
Emitted in 2009, t	9.7000	72.7000	179.8000	8.9000	3.4000	0.0000	0.4000

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



Personnel issues: management pays special attention to the improvement of work efficiency and service of consumers. The levels of professional qualification of management members and specialists correspond to their current duties. The length of service of other employees and practical knowledge of subject matter enable them to retain their current positions. The turnover of employees is not a significant problem in the Group and the Company. Considering this, an evaluation of Company's management, administration and activity was accomplished determining level and state of management and administration, their efficiency and validity. Existing Company's subdivision's level and state of management and administration, their efficiency and validity was fixed during this evaluation. By optimizing Company's management and seeking bigger Company's and its structural subdivisions and employees' efficiency, offerings regarding approval of new Company's management structure were rendered to the Company's Management Board in 2012.

Seeking bigger work efficiency annual evaluation of employees activity started in Company in 2012. The main goal of it is to evaluate employees' qualifications and competencies to accomplish functions allotted in functions regulations, appropriately evaluate employees work activity, to render a feedback on exact implementation, seeking to increase employees loyalty, satisfaction with work accomplished, motivating them to improve. The main result of this process is information allowing better coordinate Company's activity and motivate employees improve their work activity. It's planned that such kind of evaluation of Company's employees, working under employment contracts will be accomplished annually.

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 of the Group and the Company are presented in the Consolidated and AB Kauno Energija financial statements and Notes for 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 financial year

On 11 January 2013 general managers of AB Kauno Energija and Lietuvos Energija, AB signed a memorandum regarding intentions to develop a project of Petrašiūnai co-generation power plant construction. The memorandum was signed considering to continually increasing centrally supplied heat prices in Kaunas and to evaluating tasks accomplished until signing of memorandum. Developing of Petrašiūnai co-generation power plant project is sought in order to decrease heat price for Kaunas' consumers as soon as possible.

By signing a memorandum AB Kauno Energija and Lietuvos Energija, AB will seek to accept an agreement suitable for both sides regarding common development of project and further plan of action, also to sign shareholder's agreement determining model of cooperation of both entities and to establish a joint venture for project implementation. It's planned that AB Kauno Energija will use existing buildings for construction of power plant whereas Lietuvos Energija, AB will finance implementation of project with own or borrowed funds.



On 28 January 2013 AB Kauno Energija became a member of Natural Gas Exchange and participated in natural gas trade for the first time. Lacking amount (5,000 m³) of gas was purchased by lower price than a price of gas supplied under existing agreements.

On 28 January 2013 a new collective agreement was signed in AB Kauno Energija. It was signed by general manager Rimantas Bakas in the name of employer and a chairman of trade union committee Laimutė Dovidauskienė in the name of employees.

On 24 January 2013 the National Control Commission for Prices and Energy (hereinafter – Commission) determined lower components of AB Kauno Energija heat price for the first year of basic price validity by unilateral decision. A project of basic price presented by AB Kauno Energija was corrected in cooperation with Commission by determining lower level of expenses of salary and interest rates. New components of heat price started to apply from 1 March 2013.

In March 2013 an agreement signed on 28 September 2012 between the Company and UAB Kauno Termofikacijos Elektrinė “Regarding partial change of 13 August 2012 agreement on change of 31 March 2003 agreement of Heat Energy Purchase” came into force including provision to withdraw all the obligatory liabilities of AB Kauno Energija to purchase heat from UAB Kauno Termofikacijos Elektrinė by annulling percentage expression of obligatory to purchase annual heat demand of Kaunas integrated network.

On 6 March 2013 successfully accomplished Company's centralized public purchase of bio-fuel boilers partly financed by Lithuanian Environmental Investments Fund (hereinafter – LEIF) under the special program of climate change “Equipment of bio-fuel boilers with capacity from 500 kW to 5 MW for central heating supplies in municipalities where total number of inhabitants does not exceed 100 thousands”. Also the Company actively subserves to programs of environmental pollution decrease supported by LEIF. A financing in amount of LTL 0.63 million is allotted for the Company following one of them for the equipment of Pergalė boiler-house with the smoke condenser.

On 29 March 2013 an audit of financial statements of the year 2012 was completed. It was performed by auditor UAB Deloitte Lietuva (auditor certificate No. 001275). Audited financial statements and independent auditor's report concerning year 2012 is included in the Company's annual report.

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

Investments create a strong potential for the sustained business development and profitability. The aim of the Group's and the Company's investment program for the year 2013 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.

Company's Investment plan and its financing sources for the period of 2012–2015 valuation of which is LTL 134.14 million has been corrected in order to implement the National Renewable Energy Development Strategy action plan provisions, key objectives of the company and attitudes of National Energy Strategy related with heat sources and heat supply network security technical requirements, which guarantee the quality of heat supply to consumers.

The main investment goals of the Company for 2013 – 2016 regulation period are as follows: decrease of heat production expenses in existing sources, use cheaper sorts of fuel (bio-fuel), increase capacity of own sources until fulfilment of consumer's needs. Implementing 2013–2016 years investments a new water heating boiler with capacity of 18 MW will be installed in Pergalė boiler-house for increasing of production process effectiveness, connecting it to existing condenser (economizer). An existing 9 MW capacity water heating boiler is adopted for bio-fuel burning in Šilkas boiler-house in order to increase boiler-house effectiveness. It's planned to install a second bio-fuel burned water heating boiler in Šilkas boiler-house in 2014 with common condenser (economizer) for both boilers. It is predicted to install two bio-fuel burned water heating boilers for LTL 12 million in Inkaras boiler-house of capacity 8 MW each with 4 MW capacity smoke condenser (the total capacity will contain 20 MW). At II stage it's predicted to implement a construction of bio-fuel co-generation power plant with 15 MW heat and 5 MW electric capacities in Inkaras



boiler-house. Investment demand will conclude approximately LTL 50 – 60 million. Predicted amount of heat production in Inkaras boiler-house is up to 17 percent of network demand.

It is also predicted to reconstruct BKZ boiler in Petrašiūnai power plant adapting it to bio-fuel use and co-generation of “green” electricity (16 MW) and heat (approximately 44 – 50 MW). Preparatory works are implemented, a conclusion of environmental impact assessment is accomplished, participation in NCC’s “green” electricity auction was taken and negotiations with investing partner (Lietuvos Energija, AB) are under way.

The following projects of high value will be started to implement in 2013, diverting the most flows of investment funds to equipment of bio-fuel co-generation power plants: reconstruction of Inkaras boiler-house (project value – LTL 12 million), reconstruction of Noreikiškės boiler-house, equipping it with 4 MW capacity bio-fuel burned water heating boiler (project value – LTL 6.54 million), equipment of reserve fuel economy and adapting of steam boiler DKVR 10/13 for bio-fuel burning at Šilkas boiler-house (project value – LTL 12 million), reconstruction of Ežerėlis boiler-house, equipping it with 3.5 MW capacity bio-fuel burned water heating boiler (project value – LTL 4.56 million).

Financing for the projects “Modernization of Kaunas integrated network Aukštieji Šančiai main (2Ž) (HSN from HC 2Ž-11 to HC 2Ž-15 and from HC 2Ž-26 to HC 2Ž-29, Kaunas)” (project value – LTL 4.52 million) and “Reconstruction of Kaunas integrated network Viliampolė heating network (9K) from Inkaras boiler-house to Šilainiai catchment” (project value – LTL 1.82 million) under the measure VP2-4.2-ŪM-02-K “Modernization and development of heat supply system” is allocated by the order of Minister of Economy of the Republic of Lithuania of 29 March 2011 in amount of LTL 1.617 million and LTL 0.595 million accordingly. The projects will be implemented in the year 2013.

All above mentioned investment projects are included in Company’s 2012 – 2015 corrected investment plan and its financing sources, which was approved by Kaunas city municipality council on 17 November 2012 by the decision No T-627. The projects are successfully started to implement and will be finished in 2014.

Except above mentioned projects the implementation of Company’s investment program in 2012 will involve: further modernization of boiler-houses owned by the Company, making the production process automated and mounting condensers (economizers); reconstruction of heat networks; replacement of heat meters. 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 and to ensure heat supplies reliability.

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, according to the data of the World Bank in the period up to 2020 the reduction of natural gas prices in Europe by 5 percent is forecasted. It is clear that such a small decrease of the price of natural gas will not have crucial impact on heat production costs and at the same time on the price of purchased heat. In order to maintain an optimal balance in planning and implementing investment projects the Group and the Company pays a high attention to political and market trend forecasting and analysis.

The Company became the operator of energy objects in 2012. Heating equipment repairs and other services help the Company earn an additional income. Expanding of these activities in future, proposing energy saving services and earning additional income in other ways a new possibilities of heat prices compensation due to the future decrease in heat sales would, related to renovation of buildings, would come into existence.

It is planned that the Group’s sales revenue in 2013 compared to 2012 will be slightly less due to the decrease in heat price and a quantity of heat sold to consumers in 2013 will remain in the similar level. The Group’s revenue and expenses will be mostly affected by changes in fuel price and heat purchase price, since the heat price is recalculated every month as prescribed by relevant regulatory legislation. The Group’s profit is expected to remain in the same level as in 2012. 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

Financing for the project “Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water heating boiler” in amount of LTL 2.299 million and for the project “Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3.5 MW capacity water heating boiler” in amount of LTL 1.791 million is allocated by the order of Minister of Environment of the Republic of Lithuania on 4 May 2012, No D1-393 “Regarding financing allocation under the financing measure “Equipment of bio-fuel boilers with capacity from 500 kW to 5 MW for central heating supplies in municipalities where total number of inhabitants does not exceed 100 thousand”. On 16 January 2013 agreements regarding financing of these projects were signed with LEIF.

An application to LEIF regarding financing of project Pergalė boiler-house reconstruction equipping it with smoke condenser (economizer)” has been submitted in 2012. Financing for this project in amount of LTL 0.638 million was allocated by the order of Minister of Environment of the Republic of Lithuania on 4 March 2013, No. D1-181 “Regarding financing allocation for the projects under the financing measures of the Lithuanian Environmental Investment Fund use in 2012”.

On 9 October 2012 the Company signed two public purchase agreements under which a contract works of investment projects, partly financed from European Union, were purchased: “Modernization of Kaunas integrated network Aukštieji Šančiai main (2Ž) (project code VP2-4.2-ŪM-02-K-02-006) and “Reconstruction of Kaunas integrated network Viliampolė heating network (9K) from Inkaras boiler-house to Šilainiai catchment” (project code VP2-4.2-ŪM-02-K-02-007).

In 2012, “Petrašiūnai Power Plant Business Plan” prepared by Kaunas University of Technology has been renewed. Following this plan a biomass burned boiler with capacities up to 44 MW of heat and with up to 16 MW of electric power steam turbine is planned to install in 2013 – 2015. 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 high amount of “green” energy would be produced and it would create an assumption for heat prices reduction.

Three new independent heat producers came into Kaunas heat production market in 2012. They built a new bio-fuel powered boiler-houses, the heat produced in which is supplied to Kaunas consumers. As the owners of new boiler-houses don't have personnel able to exploit them, they chose services of Company's specialists.

On 12 October 2012 the Company signed a heat purchase agreement with independent heat producer UAB GECO Kaunas. The new UAB GECO Kaunas boiler-house will produce up to 140 thousand MWh of heat per year. Its projection capacity contains up to 20 MW. An amount of heat, produced in this boiler-house will reach up to 10 percent of all demand of Kaunas city.

On 14 December 2012 the Company signed a heat purchase agreement with another one independent heat producer in Kaunas region – UAB Lorizon Energy. This company built a 10 MW boiler-house, which will supply approximately 5 percent of heat consumed in Kaunas integrated network. A boiler-house has been started to exploit in February 2013.

In 2012, an agreement with Lithuanian Energy Institute regarding common realization of project of heating network reliability evaluation methodology implementation has been signed.

On 22 June 2012 the Company's Management Board decided to accept signing of agreement with UAB VS Energolink and Kaunas University of Technology in order to implement a project “Integration and effective use of renewable energy production equipment for heat and electricity production and in small and average capacity boiler-houses of central heating supplies sector entities.

Following the provisions of Law on Heat Sector of the Republic of Lithuania and allowing development of competition in heat production sector, the Company initiated and accomplished work “Preparation of regulations of implementation of order of centrally supplied heat purchase” (hereinafter – Heat Networks Code), in which existing and predicted requirements of connection of independent heat producers to central



heating networks and principles, ways and processes of heat selling – purchase are described in details. It is also offered what must be implemented seeking a transparent and fluent trade with independent heat producers. Principles, provisions and concepts of organizational structure of heat market, technological regulations of central heat supplies systems functioning, order of heat energy trade, regulations of central heat supplies services rendering and reimbursement, regulations of central heat supplies development, regulations of reserves accumulation and use, central heat supplies system functioning in accidents or repair occasions, contention resolving are detailed. The document is discussed in Kaunas city municipality at this time.

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, 15, 23, 24 to the financial statements for 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.

As of 31 December 2012, the Company's branch office Jurbarko Šilumos Tinklai had 35 employees.

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

As of 31 December 2012 an authorised capital of the subsidiary in amount of LTL 4,753,800 was registered at the Register of Legal Entities and it is divided into 47,538 ordinary shares at the nominal value of LTL 100 each.

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

Activities of UAB Pastatų Priežiūros Paslaugos is a maintenance of heat points equipment and of heating and hot water supply systems of buildings, a repair of buildings and of heat points equipment as well as of heating systems equipment, also a transportation facilities and as the other activities – a rent of premises.

Subsidiary's turnover of the year 2012 was LTL 1,710 thousand, and the loss was LTL 641 thousand. Accumulated loss of the previous periods was LTL 1,177 thousand. Total loss brought forward was LTL 54.25 thousand as at 31 December 2012, because the authorised capital was reduced with the sum of LTL 1,764 thousand.

Starting from July 1, 2012 and according to the item 2 of the article 20 of the Law on Heat Sector of the Republic of Lithuania "heat supplier or persons related with heat supplier with job relations or supplying goods, or providing facilities to heat supplier, or producers of fuel, used in heat production, or producers of appliances or other equipment, used in heat supply activities as well as persons making business in wholesale or retail trade of fuel, used in heat production, or persons along with above mentioned persons belonging to the group of subjects in accordance to the Law on Competition are not able to be a supervisors (operators) of heating and hot water systems" in blocks of flats (this prohibition is not applicable for supervision of heating



and hot water systems in blocks of flats situated in populated localities with less than 50,000 inhabitants according to the Lithuanian Department of Statistics).

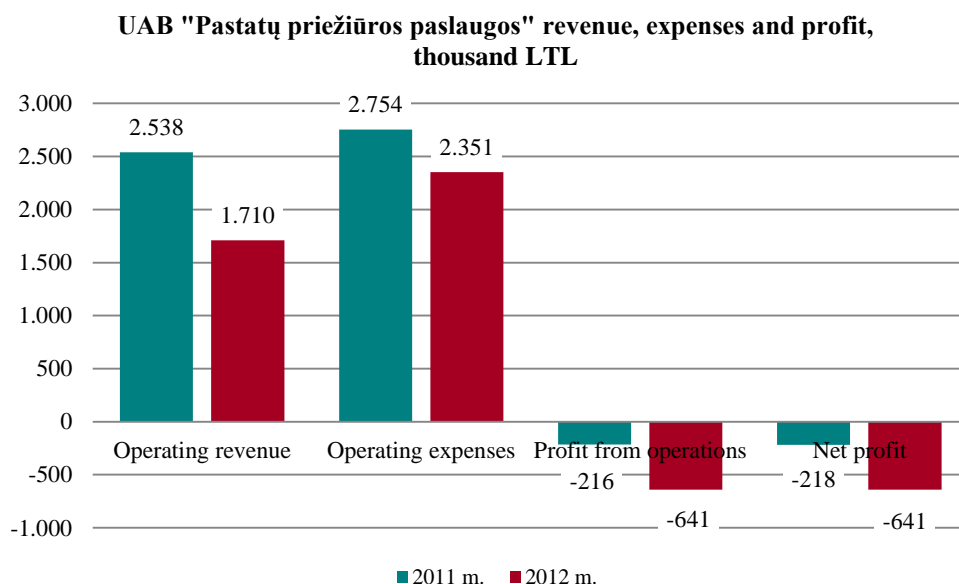
Considering provisions of the Law on Change and Addition of chapters 2, 3, 20, 22, 28 and 31 of the Law on Heat Sector of 20 May 2003 regarding dissociation of maintenance of buildings' heating and hot water systems from heat production and supply, Company's Board approved in 2012 a reorganization of UAB Pastatų Priežiūros Paslaugos in the way of dissociation of Subsidiary's activities and establishing a new company of the same legal form UAB Kauno Energijos NT.

The Board of UAB Pastatų Priežiūros Paslaugos approved on 26 November 2012 a project of conditions of dissociation of UAB Pastatų Priežiūros Paslaugos. On 12 December 2012 in pursuance of Subsidiary's reorganization procedures the conditions of Subsidiary's dissociation were announced in publication of the Register of Legal Entities and a changed legal status was registered, i. e. the status of legal person taking part in dissociation was registered.

As of 31 December 31 2012 a 34 employees were employed in Subsidiary.

A comparison of financial figures (operating revenue, profit from operations, net profit) of UAB Pastatų Priežiūros Paslaugos of the years 2012 and 2011 is presented in Chart 8.

Chart 8



15. Structure of authorized share capital

As of 31 December 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 5.

Table 5

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



16. Data on shares issued by the Issuer

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

No restrictions exist in respect of transfer of securities.

16.1. The main characteristics of shares issued for public traded securities (31 December 2012).

Securities registration No	A01031430
Security's 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 2012).

Security's ISIN code	LT0000128407
Number of shares	22,700,000 ordinary registered shares
Nominal value	LTL 6
Total nominal value of shares	LTL 136,200,000

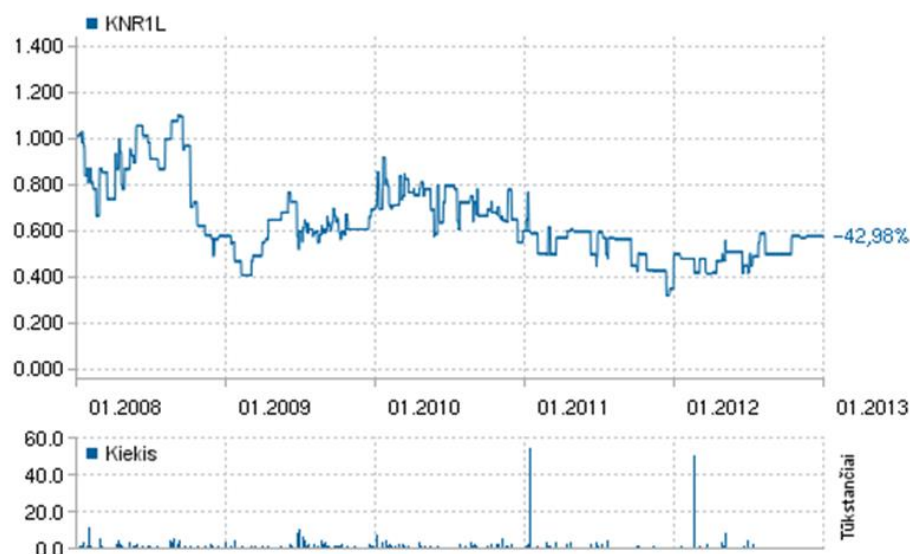
Trading history of the Company's securities during 2008 – 2012 is presented in Table 6.

Table 6

Trading history data	2008	2009	2010	2011	2012
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	2.037/0.590
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	1.996/0.578
Traded , units	82,775	92,418	77,729	90,239	80,421
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	39.98/11.58

Historical data on share prices and turnovers during 2008 to 2012 is illustrated in Chart 9.

Chart 9



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

Chart 10

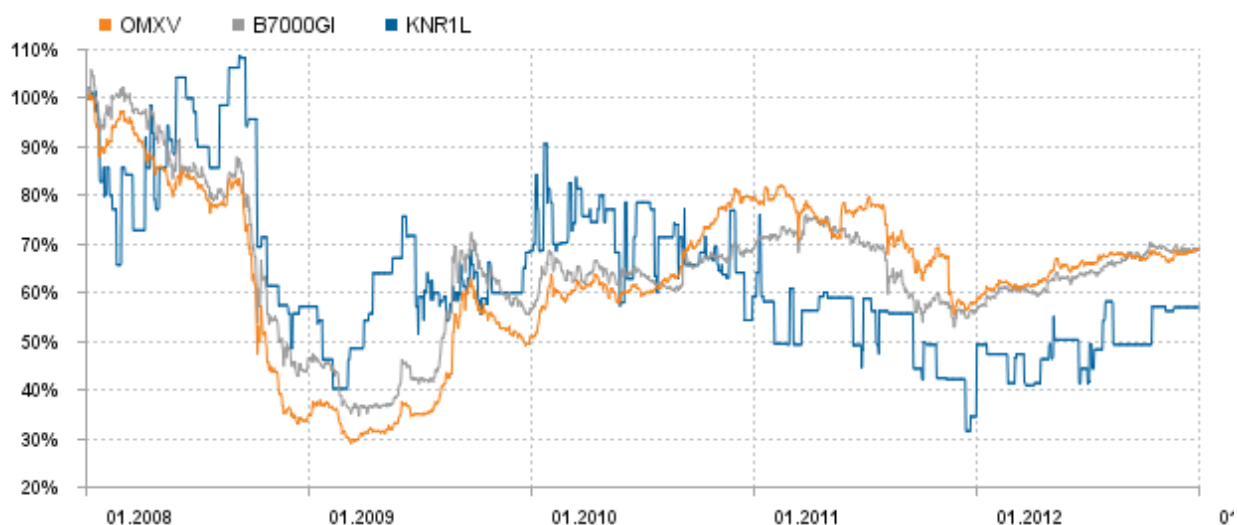


Chart 10 data:

Index/shares	1 Jan 2008	1 Jan 2013	+/-%
—OMX Vilnius	514.23	355.08	-30.95
—B7500GI	1,437.41	988.68	-31.22
—KNR1L	1.01 EUR	0.58 EUR	-42.98

17. Information on the Issuer's shareholders

As of 31 December 2012, the total number of shareholders of AB Kauno Energija was 333.

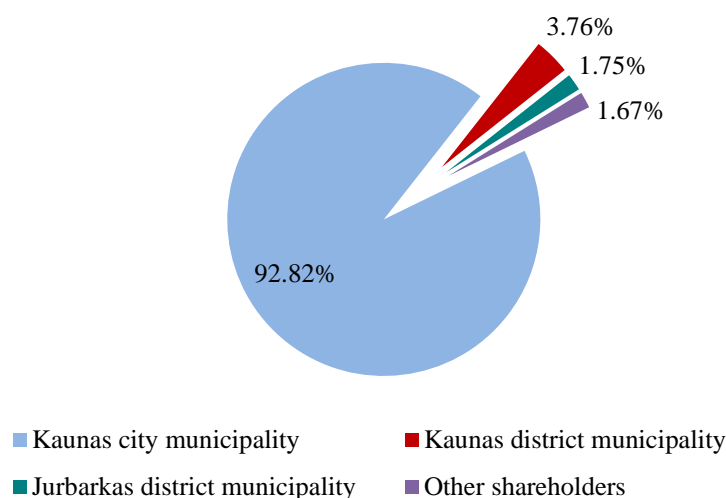
The Issuer's shareholders, whose ownership interest as at 31 December 2012 exceeded 5 percent of the Company's authorized share capital (42,731,977 ordinary registered shares) registered on 26 March 2010, are listed in Table 7 with additional data illustrated in Chart 11.

Table 7

Full name of shareholder (company name, type, registered address, code)	Number of ordinary registered shares owned by the shareholder, units	Ownership interest, percent	Share of votes attributed to the shares owned, percent	The share of votes owned by shareholders and jointly acting persons, percent
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	-



Shareholders structure as of 31 December 2012



17.1. The shareholders, whose ownership interest as of 31 December 2012 exceeded 5 percent of the Company's shares (20,031,977 ordinary registered shares) issued for public trading (registration No. A01031430; security's ISIN code – LT0000123010), are listed in Table 8.

Table 8

Name	Type of shares	Number of shares, units	Total nominal value of shares, LTL	Portion of shares (percent) as a percentage of shares issued for public trading	Ownership interest (percent)
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 31 December 2012 exceeded 5 percent of the Company's shares (22,700,000 ordinary registered shares) issued for non-public trading (security's ISIN code – LT0000128407), are listed in Table 9.

Table 9

Name	Type of shares	Number of shares, units	Total nominal value of shares, LTL	Portion of shares (percent) as a percentage of shares issued for public trading	Ownership interest (percent)
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, dividends from the 2009 year profit was allocated and paid for Issuer's shareholders. Earnings per share (dividend rate) were 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 allocated and paid to the Issuer's shareholders. The profit of the year 2010 was committed to investments, sponsoring and legal reserve.

In 2012, dividends from the 2011 year profit was allocated and paid for Issuer's shareholders. Earnings per share were LTL 0.25, total – LTL 10 683 000 (ten million six hundred eighty three thousand litas).

18. Employees

As of 31 December 2012, the Group had 617 employees. The change in the number of employees during 2010–2012 is illustrated in Table 10.

Table 10

The actual number of employees	Company 31 12 2010	Group 31 12 2010	Company 31 12 2011	Group 31 12 2011	Company 31 12 2012	Group 31 12 2012
Total:	582	647	583	628	583	617
Including: managers	4	6	4	6	4	6
specialists	300	323	310	325	314	327
workers	278	218	269	397	265	284

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

Table 11

No.	Education level	Company 31 12 2010	Group 31 12 2010	Company 31 12 2011	Group 31 12 2011	Company 31 12 2012	Group 31 12 2012
1	Secondary (unfinished)	10	12	9	11	8	9
2	Secondary	229	264	219	245	217	231
3	Post-secondary	93	102	92	98	83	89
4	Higher	250	269	263	274	275	288
	Total:	582	647	583	628	583	617

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

Table 12

No.	Employees	Company	Group
1.1.	Average relative number of managers	4	6
1.2.	Average monthly salary of managers	7,864.1	6,541.0
2.1.	Average relative number of specialists	297.7	310.8
2.2.	Average monthly salary of specialists	2,763.0	2,739.0
3.1.	Average relative number of workers	254.2	273
3.2.	Average monthly salary of workers	2,007.8	1,981.8



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 legal acts as well as Company's collective employment agreement. 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 allocated 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. According to the collective employment agreement that came into force on 28 January 2013:

1. For uninterrupted work experience in the Company an additional paid vacation for employees is rendered:

- | | |
|---|--------------------|
| 1.1. for the first 5 years of work experience in Company | – 1 calendar day; |
| 1.2. for work experience from 6 to 10 years | – 2 calendar days; |
| 1.3. for work experience over 10 years | – 3 calendar days; |
| 1.4. for every 5 subsequent years of work experience in Company | – 1 calendar day; |

2. For employees who worked at the enterprises of Lithuanian energy system and were shifted to AB Kauno Energija by the agreement of employers, i. e. when shift was made at the time when Labour Code or Law on Employment Contract were valid, work experience is considered uninterrupted rendering additional paid vacation for uninterrupted work experience in Company.

3. In case of agreement between employer and employee an unpaid vacation due to the family circumstances and other important reasons can be rendered to employee.

4. Company's employees have the right for additional paid vacation:

- | | |
|--|--------------------|
| 4.1. in case of marriage | – 3 calendar days; |
| 4.2. in case of death of nearest relative (one of parents or spouse's parents, spouse, brother, sister, daughter, son or legal foster-child, grandson or granddaughter) | – 3 calendar days; |
| 4.3. in case of birth of child | – 1 calendar day; |
| 4.4. in case of employee's daughter's, son's or legal foster-child's marriage | – 3 calendar days; |
| 4.5. For employees who grow a child with less than twelve years old, attending secondary school, a day off at a first day of school year is rendered, paying an employee's average salary. | |

4.6. For employees who take (entrance) examinations into academies or higher educational institutions and who are successful students and when their specialities match Company's interests and activities, study vacation is rendered by law determinate order and paying 50 percent of average monthly salary of employee.

Employer obligates:

1. To allow preventive tests of employees' health and rehabilitation treatment if necessary, render free services at Company's health centre;

2. In case of employee's death, allow an allowance in amount of two past years Company's or Branch' (depends on where an employee was employed) average salary, free transportation or cover transportation costs. An allowance is paid for burying person;

3. In case of death of employee's nearest relative (one of parents, child or spouse), allow an allowance in amount of the past year Company's or Branch' (depends on where an employee is employed) average salary, free transportation or cover transportation costs;

4. In case of one or more child's birth, allow for employee an allowance in amount of 50 per cent of the past year Company's or Branch' (depends on where an employee is employed) average salary for each child;

5. In case of marriage, allow for employee an allowance in amount of 50 per cent of the past year Company's or Branch' (depends on where an employee is employed) average salary;

6. For employees growing three or more children under 16 years old, widow or widower and for unmarried persons, who grow one or more children themselves, if they are students of high or secondary schools and under 19 years old, and if they are full-time students of academies or higher educational institutions – under 21 years old, or if they take care of other family members for whom a severe or intermediate level of disability or less than 55 per cent of employability is diagnosed, or family members, who are already turned superannuation age and for whom high or intermediate special needs level is diagnosed, allow an allowance once a year in amount of 50 per cent of the past year Company's or Branch' (depends on where an employee is employed) average salary, depending on the date of application;



7. In case of employee's 40, 50 or 60 years' birth anniversary allow a gift for an employees for a good implementation of their duties by the allotment of the head of department in amount of 25 per cent of the past year Company's or Branch' (depends on where an employee is employed) average salary if employees have from 15 to 20 years of uninterrupted work experience in Company or Branch and a gift in amount of 50 per cent of the past year Company's or Branch' (depends on where an employee is employed) average salary if employees have over 20 years of uninterrupted work experience in Company or Branch;

8. In other cases, when a material assistance is necessary (in case of losses due to a natural disasters and duo to another reasons without reference to an employee) allow an allotment in amount to LTL 2 thousand by the common settlement of both parties, who signed a Company's collective employment agreement;

9. In case of a serious disease of an employee or in case of serious accident, allow an allowance in amount of up to 5 past year Company's or Branch' (depends on where an employee is employed) average salary by the common settlement of both parties, who signed a Company's collective employment agreement;

10. In case of the Day of Lithuanian Energetics System Employees and in case of Company's jubilees allow a monetary gifts to honoured employees up to LTL 500.

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 entities. 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 collegial 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.

Supervisory Board approves an internal instructions of audit committee formation and elects members of audit committee in accordance with 21 August 2008 decision No. 1K-18 of Securities Commission of the Republic of Lithuania "Regarding requirement to audit committees", "Guidelines of use of requirements for audit committees", which were approved by 28 November 2008 Securities Commission decision.

Internal instructions of Company's audit committee were approved by the protocol decision No. 2012-5 of 5 July 2012 of Supervisory Board. Internal instructions of Company's audit committee formation and activities, which were approved by the protocol decision No. 2009-1 of Company's Supervisory Board of 31 March 2009, had lost its validity by the same decision.

On 2 January 2012 the Company's Supervisory Board, which was elected by the decision of Company's General Meeting of shareholders of 29 December 2011, elected by the protocol decision No. 2012-1 an audit committee members, who pursued their activities until 28 September 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.

Members of audit committee implemented their activities from 18 August 2011 till 28 September 2012. When implementing its activities audit committee follows instructions of Company's audit committee formation and activities, approved by Company's Supervisory Board on 31 March 2009, and starting from 5 July 2012 Company's internal audit committee instructions. Audit committee implements its functions due to Chapter 52 of Law on Audit of the Republic of Lithuania. Audit committee had 3 sessions during 2012.



On 21 February 2013 the Supervisory Board approved a new members of audit committee Valerija Stankūnienė, deputy chief accountant of the Company and Inga Dragūnienė, senior economist of the Company's Economics and Planning unit of the Department of Finances.

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 Company's Supervisory Board as of 31 December 2012:

Name, surname	Position	Beginning of the term of office	End of the term of office
Andrius Kupčinskas	Chairman of Supervisory Board	28 September 2012	30 April 2016
Stanislovas Buškevičius	Member of Supervisory Board	28 September 2012	30 April 2016
Edita Gudišauskienė	Member of Supervisory Board	28 September 2012	30 April 2016
Orinta Leiputė	Member of Supervisory Board	28 September 2012	20 December 2012
Aušra Ručienė	Member of Supervisory Board	28 September 2012	30 April 2016
Artūras Tepelys	Member of Supervisory Board	28 September 2012	30 April 2016
Gediminas Žukauskas	Member of Supervisory Board	28 September 2012	30 April 2016

During 2012, 6 sessions of Supervisory Board took place. More than 2/3 of Supervisory Board members took part in all of the sessions.



Mr Andrius Kupčinskas, mayor of Kaunas city, member of Kaunas city municipality council, a chairman of Strategic planning commission. He's also a representative of Kaunas city municipality in Business council.
He has no shares of the Company, nor any ownership interest in other companies.

Mr Stanislovas Buškevičius, deputy mayor of Kaunas city, member of Kaunas city municipality council, a member of Art and Culture committee, a chairman of Awards council.

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



Mrs Edita Gudišauskienė, a member of Kaunas city municipality council, a chairman of Budget and Finances committee, a member of Strategic planning commission. She's also a member of Lampėdžiai Community Centre board.

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

Ms Orinta Leiputė. Mrs Leiputė is a member of Seimas of the Republic of Lithuania (hereinafter – Seimas) since 19 November 2012. In Seimas she's a member of Education, studies and culture committee, a member of Ethics and procedures commission, a member of Lithuanian Social Democratic Party faction, a member of Child wellbeing parliamentary group, a member of Dzūkija mate's parliamentary group, a member of Developing cooperation, reproductive health and rights parliamentary group, a member of Women parliamentary group, a member of group of Joint Committee Associations with Japan, a member of group of Joint Committee Associations with Latin America, a member of group of Joint Committee Associations with North Europe (Denmark, Iceland, Norway, Finland, Sweden), a member of group of Joint Committee Associations with Association of European parliamentarians for Africa (AWEPA), a member of group of Joint Committee Associations with Taiwan, a member of group of Joint Committee Associations with Israeli Knesset, a chairman of Seimas delegation at the European Council Parliamentary assembly. She's also a member of Lithuanian Young Scientists union, a member of Lithuanian Social Democratic Party council and presidium, a chairman of Kaunas branch, a deputy chairman of Lithuanian Social Democratic women union, a member of Kaunas Women Politicians club MILDA (Women initiative for democracy grow in Lithuania), a honoured member of Young Lithuanian Falcons union (children and youth organization).

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



Mrs Aušra Ručienė, lawyer. Mrs Ručienė is a member of Kaunas city municipality council, a chairman of City Development, Investments and Tourism committee, a member of Control committee, a chairman of Anticorruption commission, a member of Strategic planning commission.

Mrs Ručienė has no shares of the Company, but she's a shareholder of UAB Ručenta.

Mr Artūras Tepelys. Mr Tepelys is a member of Kaunas city municipality council, a member of Social, Health and Education committee, a chairman of Administration commission, a member of Anticorruption commission, deputy director of Company's branch Jurbarko Šilumos tinklai. During the year 2012 earnings before-tax in amount of LTL 47 thousand were paid, but no annual payments were paid, nor any assets were transferred or guarantees issued. She has no shares of the Company, nor any ownership interest in other companies.



Mr Gediminas Žukauskas. Mr Žukauskas is an Exploitation director at UAB Kauno Vandenyys. He's also a member of Kaunas City municipality Council, a chairman of Self-Government and communities development committee, a member of Titles Contriving and Perpetuation of Memories commission, a member of Privatization Commission, a member of Strategic Planning commission, a chairman of Panemunė Community centre.

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

The Supervisory Board was elected by the decision of the Company's General meeting of shareholders, held on 29 December 2011 and it was recalled on 28 September 2012 until the term of office.

Name, surname	Position	Beginning of the term of office	End of the term of office
Rytis Šatkauskas	Chairman of Supervisory Board	29 December 2011	28 September 2012
Ričardas Juška	Member of Supervisory Board	29 December 2011	28 September 2012
Arvydas Garbaravičius	Member of Supervisory Board	29 December 2011	28 September 2012
Edita Gudišauskienė	Member of Supervisory Board	29 December 2011	28 September 2012
Orinta Leiputė	Member of Supervisory Board	29 December 2011	28 September 2012
Aušra Ručienė	Member of Supervisory Board	29 December 2011	28 September 2012
Gediminas Žukauskas	Member of Supervisory Board	29 December 2011	28 September 2012

Mr Rytis Šatkauskas. Mr Šatkauskas is a director of Development Department at UAB Sabelijos Prekyba. He's also a member of Kaunas City municipality council, a member of Privatization Commission, a representative of Kaunas city municipality at Kaunas three-party council, a chairman of Information Society Developing committee of Labour party. Mr Rytis Šatkauskas has no shares of the Company. He is a shareholder of UAB Ritėjus (100 per cent of shares).

Mr Ričardas Juška, mayor of Jurbarkas region municipality, a member of Jurbarkas region municipality, a chairman of Jurbarkas region municipality privatization commission, a member of the Board of Lithuanian Association of Local Authorities, a chairman of health affairs committee of Lithuanian Association of Local Authorities, a member of Supervisory board of Tauragė Regional Waste Handling Centre.

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

Mr Arvydas Garbaravičius, a partner of UAB ARJ CAPITAL, a member of Kaunas city municipality council, a member of City Development, Investments and Tourism committee, deputy chairman of Control committee, a member of Anticorruption commission. Mr Garbaravičius is also a member of management board of public institution Kauno Plėtros Forumas, a 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 OY, DALEKOVOD DD, France Telecom SA, ENERGY SOLUTION RUSSIA AB, FEDERAL, RENEWABLE ENERGY CORP. ASA, SEVAN MARINE ASA, BELJE DD DARDA, Bank of America.

Mrs Edita Gudišauskienė, a member of Kaunas city municipality council, a chairman of Budget and Finances committee, a member of Strategic planning commission. She's also a member of Lampėdžiai Community Centre board. Mrs Gudišauskienė has no shares of the Company, nor any ownership interest in other companies.

Ms Orinta Leiputė. Mrs Leiputė is a member of Seimas of the Republic of Lithuania (hereinafter – Seimas) since 19 November 2012. In Seimas she's a member of Education, studies and culture committee, a member of Ethics and procedures commission, a member of Lithuanian Social Democratic Party faction, a member of Child wellbeing parliamentary group, a member of Dzūkija mate's parliamentary group, a member of Developing cooperation, reproductive health and rights parliamentary group, a member of Women parliamentary group, a member of group of Joint Committee Associations with Japan, a member of group of Joint Committee Associations with Latin America, a member of group of Joint Committee Associations with North Europe (Denmark, Iceland, Norway, Finland, Sweden), a member of group of Joint Committee Associations with Association of European parliamentarians for Africa (AWEPA), a member of group of Joint Committee Associations with Taiwan, a member of group of Joint Committee Associations with Israeli Knesset, a chairman of Seimas delegation at the European Council Parliamentary assembly. Ms Leiputė has no shares of the Company, nor any ownership interest in other companies.



Mrs Aušra Ručienė, lawyer. Mrs Ručienė is a member of Kaunas city municipality council, a chairman of City Development, Investments and Tourism committee, a member of Control committee, a chairman of Anticorruption commission, a member of Strategic planning commission. Mrs Ručienė has no shares of the Company, but she's a shareholder of UAB Ručenta.

Mr Gediminas Žukauskas. Mr Žukauskas is an Exploitation director at UAB Kauno Vandeny. He's also a member of Kaunas City municipality Council, a chairman of Self-Government and communities development committee, a member of Titles Contriving and Perpetuation of Memories commission, a member of Privatization Commission, a member of Strategic Planning commission, a chairman of Panemunė Community centre. Mr Žukauskas has no shares of the Company, nor any ownership interest in other companies.

No remuneration (salary or annual payments) was paid to the members of Supervisory Board, nor any assets were transferred or guarantees issued during the reporting period.

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

As of 31 December 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
Valdas Lukoševičius	Chairman of the Management Board	28 September 2012	30 April 2016
Sigitas Grobllys	Deputy chairman of the Management Board	28 September 2012	30 April 2016
Juozas Augutis	Member of the Management Board	28 September 2012	30 April 2016
Rimantas Bakas	Member of the Management Board	28 September 2012	30 April 2016
Saulius Meškauskas	Member of the Management Board	28 September 2012	30 April 2016
Vaclova Miškinis	Member of the Management Board	28 September 2012	30 April 2016
Mindaugas Varža	Member of the Management Board	28 September 2012	30 April 2016

40 sessions of the Company's Management Board were held during 2012. More than 2/3 members of the Management Board attended all the sessions.



Mr Valdas Lukoševičius, doctor of technical sciences, holds the position of the Company's Head of Department of Strategy and Investment Projects. Mr Lukoševičius is a chairman of the Company's Management Board since 28 September 2012. He's also a President of Lithuanian Energy Consultants Association, a docent of department of Thermal and Nuclear Energy of Kaunas University of Technology. Mr Valdas Lukoševičius has no shares of the Company, nor any ownership interest in other companies. During the year 2012 earnings before-tax in amount of LTL 9.5 thousand were paid, but no annual payments were paid, nor any assets were transferred or guarantees issued.

Mr Sigitas Grobllys, partner of law company Foresta, works at the Business law group. Mr Grobllys is a member of the Company's Management Board since 28 September 2012. He's also a member of the Management Boards of companies UAB Orivas and UAB Litpirma, a chairman of Gintaras Steponavičius relief fund. Mr Sigitas Grobllys has no shares of the Company, nor any ownership interest in other companies. During the reporting period no remuneration or annual payments were paid, nor any assets were transferred or guarantees issued.



Mr Juozas Augutis, professor, science prorektor of Vytautas Magnus University, professor in Mathematics and Statistics department of Vytautas Magnus University. Mr Augutis is a member of the Company's Management Board since 28 September 2012. He's also an actual member of Lithuanian Academy of Sciences, an expert of 6BP and 7BP, an expert of Lithuanian Science council, an expert of the State Studies





Foundation, head of Energetic Security Research Centre, a chairman of Ignalina NPP security committee, a member of editorial staff of journals "Energetics", „Journal of Civil Engineering and Management“, and "Mathematics and mathematical patterning", a member of councils of Institute of Mathematics and Informatics and Lithuanian Energy Institute, a member of International Data Safety Association ESREDA SRA, a member of Vytautas Magnus University Senate and council, a member of Lithuanian Mathematics society and Statisticians union, a chairman of National science program "Cohesive Energy" arrangement group and of National science program "Future Energy" arrangement group. Mr Juozas Augutis has no shares of the Company, nor any ownership interest in other companies. During the reporting period no remuneration or annual payments were paid, nor any assets were transferred or guarantees issued.

Mr Rimantas Bakas, doctor of Technical sciences. General Manager of Kauno Energija AB. Member of Management Board of the Company from 28 September 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 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. 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 Rimantas Bakas has no shares of the Company, or ownership interest in of other companies. During the year 2012 earnings before-tax in amount of LTL 180 thousand were paid (compensation for dismissal from head's position on 28 September 2012 following provisions of Labour Code of the Republic of Lithuania when employment contract is terminated in occasions determined by Labour Code and by other laws was counted in this sum and the compensation for unused vacation was paid). No annual payments were paid, nor any assets were transferred or guarantees issued.



Mr Saulius Meškauskas, deputy head of Energy department of Kaunas city municipality administration, member of the Company's Management Board since 28 September 2012. Mr Saulius Meškauskas has no shares of the Company, nor any ownership interest in other companies. During the reporting period any remuneration or annual payments were paid, nor any assets were transferred or guarantees issued.

Mr Vaclovas Miškinis, doctor, head of Complex Energy Research laboratory of Lithuanian Energy Institute, professor, member of Lithuanian Energy Institute's the Scientific Board, member of the Company's Management Board since 28 September 2012. Mr Vaclovas Miškinis has no shares of the Company, nor any ownership interest in other companies. During the reporting period any remuneration or annual payments were paid, nor any assets were transferred or guarantees issued.



Mr Mindaugas Varža, director at UAB Novrita, director at UAB Kauno Verslo Grupė, a member of the Company's Management Board since 28 September 2012. Mr Mindaugas Varža has no shares of the Company, nor any ownership interest in other companies. During the reporting period any remuneration or annual payments were paid, nor any assets were transferred or guarantees issued.



Company's Management Board was recalled until the term of office by the decision of the Company's Supervisory Board of 28 September 2012.

Full name	Position	Beginning of the term of office	End of the term of office
Mr. Arvydas Augonis	Chairman of the Management Board	3 May 2011	28 September 2012
Mr. Giedrius Donatas Ašmys	Deputy chairman of the Management Board	2 January 2012	28 September 2012
Mr. Kęstutis Buinevičius	Management Board member	27 February 2012	28 September 2012
Mr. Gintaras Čizikas	Management Board member	3 May 2011	28 September 2012
Mr. Jonas Koryzna	Management Board member	2 January 2012	28 September 2012
Mr. Vytautas Mikaila	Management Board member	2 January 2012	28 September 2012
Mr. Vidas Rybelis	Management Board member	2 January 2012	28 September 2012

Mr Arvydas Augonis. Head of Development and Analysis Department in AB Kauno Energija since 16 May 2011 till 1 October 2012. He's also a 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). He was also a Chairman of Management Board of UAB Pastatų Priežiūros Paslaugos till 25 October 2012. 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. He's also a 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 Čizikas. Lithuanian Labour Federation, Chairman of Kaunas County Department. Mr Čizikas 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. He's also a 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, director of MVE Group UAB. He's also a member of Association of Heating Technicians Engineers, member of Rotary Club Kauno Tauras. Mr Mikaila has no shares of the Company however he has 55 percent 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, Senior engineer at UAB Pastatų Priežiūros Paslaugos untill 31 December 2012, and a member of UAB Pastatų Priežiūros Paslaugos Management Board until 25 October 2012. Mr Rybelis has no shares of the Company, nor any ownership interest in other companies. During the year 2012 earnings



before-tax in amount of LTL 46.6 thousand were paid, but no annual payments were paid, nor any assets were transferred or guarantees issued.

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

Mr Rimantas Bakas. Doctor in engineering. General Manager of the Company since 24 November 2008, Member of Management Board of the Company from 28 September 2012. Member of Lithuania heating technique engineers association, a 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 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 shares, which make less than 5 percent of the authorized share capital. She has no ownership interest in other companies.

During 2012, total remuneration estimated for the General Manager and Chief Accountant amounted to LTL 279.6 thousand, average amount per person – LTL 139.8 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 is presented in Company's website.



26. Data on publicly declared information

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

Heading of announcement	Category of announcement	Language	Time
Strategic directions of AB Kauno Energija activities for the regulatory period of the years 2013–2016	Notification on material event	En, Lt	07.03.2013 16:25:12
Regarding the influence of AB Ūkio Bankas situation on activities of AB Kauno Energija	Notification on material event	En, Lt	13.02.2013 15:51:16
An intermediate unaudited financial statement of 12 months of the year 2012	Notification on material event	En, Lt	11.02.2013 16:58:07
The activity result of 12 months, 2012	Notification on material event	En, Lt	28.01.2013 16:35:25
A Memorandum on Cogeneration power plant in Petrašiūnai was signed by AB Kauno energija and Lietuvos energija, AB	Notification on material event	En, Lt	11.01.2013 16:07:09
Information on the end of term of office of the member of AB Kauno Energija Supervisory Board	Notification on material event	En, Lt	23.12.2012 14:53:02
The activity results of the 9 months of the year 2012	Notification on material event	En, Lt	26.10.2012 14:28:29
Information on election of the management bodies of AB Kauno Energija	Notification on material event	En, Lt	28.09.2012 18:42:43
Regarding recall and election of management bodies of AB Kauno Energija	Notification on material event	En, Lt	28.09.2012 16:06:39
The resolutions of the Extraordinary General meeting of shareholders of AB Kauno Energija	Notification on material event	En, Lt	28.09.2012 13:42:23
Draft decisions of Extraordinary General meeting of shareholders of AB Kauno Energija	Notification on material event	En, Lt	24.09.2012 13:08:29
Convocation and resolutions projects of Extraordinary General meeting of shareholders of AB Kauno Energija	Notification on material event	En, Lt	04.09.2012 19:10:51
Regarding the resignation of a member from Management Board:	Notification on material event	En, Lt	30.08.2012 17:08:25



Heading of announcement	Category of announcement	Language	Time
Regarding Kaunas city municipality information on initiation of convocation of Extraordinary General Meeting of Shareholders	Notification on material event	En, Lt	30.08.2012 13:16:27
Intermediate information on AB Kauno Energija for the first half of the year 2012	Notification on material event	En, Lt	24.08.2012 11:25:06
Resolutions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notification on material event	En, Lt	17.08.2012 15:36:24
Regarding offerings of Supervisory Board of AB Kauno Energija to Extraordinary General Meeting of Shareholders	Notification on material event	En, Lt	16.08.2012 19:10:20
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 07:38:29
Convocation and resolutions projects of Extraordinary General meeting of shareholders of AB Kauno Energija	Notification on material event	En, Lt	25.07.2012 12:00
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 08:42:31
Information regarding started payment of dividends to AB Kauno Energija shareholders	Notification on material event	En, Lt	12.06.2012 15:11
Information regarding payment of dividends of AB Kauno Energija	Notification on material event	En, Lt	06.06.2012 10:39
Information regarding unpaid dividends as it is stated by the law	Notification on material event	En, Lt	31.05.2012 16:00
Financial statements with the annual report	Notification on material event	En, Lt	30.04.2012 13:40
Resolutions of the General Meeting of Shareholders of AB Kauno Energija	Notification on material event	En, Lt	30.04.2012 13:30
Activity results of the first quarter, 2012	Notification on material event	En, Lt	25.04.2012 08:09
Concerning reorganization of subsidiary by separation means	Notification on material event	En, Lt	06.04.2012 13:40
General meeting of AB Kauno Energija shareholders and decisions' projects	Notification on material event	En, Lt	06.04.2012 07:35
Information regarding negotiations with UAB Kauno Termofikacijos Elektrinė	Other information	En, Lt	29.02.2012 15:54



Heading of announcement	Category of announcement	Language	Time
Information on the election of Managing Board of AB Kauno Energija	Notification on material event	En, Lt	28.02.2012 15:41
CORRECTION: An intermediate unaudited financial statement of 12 months of the year 2011	Interim information	En, Lt	25.01.2012 16:02
An intermediate unaudited financial statement of 12 months of the year 2011	Interim information	En, Lt	25.01.2012 16:02
Regarding the decision of the Managing Board to resume negotiations with Lietuvos Energija, AB	Notification on material event	En, Lt	24.01.2012 16:16
The activity result of 12 months, 2011	Notification on material event	En, Lt	24.01.2012 16:07
Information on the election of AB Kauno Energija management bodies	Notification on material event	En, Lt	02.01.2012 15:14

General Manager of AB Kauno Energija

Rimantas Bakas

29 March 2012

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

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

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

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

IV should apply to the board as long as that does not contradict the essence and purpose of this body. ¹		
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. ²	Yes	According to the Statute of the Company the Supervisory Board of 7 (seven) members is elected and the Supervisory Board elects the Management Board. It also is formed of 7 (seven) members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Supervisory Board of the Company is elected for 4 (four) years. According to the Statute of the Company and to the practice it is not forbidden to re-elect the single members of the Supervisory Board for the new term (Supervisory Board member's number of terms of office is not limited). Also the General meeting of shareholders is able to recall the Supervisory Board in-corpore or its individual members before the end of term of Supervisory Board and the member of Supervisory Board is able to resign before the end of term giving a 14 days written warning.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of the Company's Supervisory Board hasn't been the General Manager of the Company. His current or past position is not an obstacle for independent and impartial supervision.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting		

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

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

The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.³

<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	<p>The mechanism of forming of the Supervisory Board, which corresponds to the requirements of the Law on Joint Stock Companies of the Republic of Lithuania, ensures the objective supervision of the collegial body.</p>
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	<p>Information regarding candidates for the members of Supervisory Board is being disclosed for shareholders even before and during General meeting of shareholders. Information regarding their education, qualifications, professional experience, occupation and other important professional obligations is being presented in Company's annual and interim reports as well as in Company's website. It is foreseen in the work regulations of the Supervisory Board that every member of the body has to inform the Chairman of the Supervisory Board and the Company about his data change and this data is being presented in the Company's annual and interim reports as well as in Company's website.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Not applicable</p>	<p>The shareholders of the Company by offering candidates for the collegial body must ensure that these members have the required competence. The Company publishes only the information which is provided by the members of the collegial body. Information which is presented in the annual and in interim report (data on participation of the issuer's statute capital, data on participation in other undertakings, bodies and organisations (title of the company, institution or organization and personal occupation), is published in Company's website.</p>
<p>3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have</p>	<p>Yes</p>	<p>According to the Company's structure and activities, the main shareholder of the Company introduces candidates for members of the collegial body with relevant qualifications. The Collegial body as a unit has a versatile knowledge, opinions and experience enabling them to perform their tasks properly. Audit Committee as a unit, has up-to-date knowledge and relevant experience in finance, accounting, and (or) auditing.</p>

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

knowledge of and experience in the field of remuneration policy.		
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	In the practice of the Company all the new members of Supervisory Board are regularly informed about Company's activities and its alterations, as well as substantial changes of legal acts, regulating Company's activities and of circumstances, making an influence on Company's activities at the sessions of Supervisory Board of individually if there is such need or upon request of members.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient ⁴ number of independent ⁵ members.	No	The Company does not make any influence on the composition of the collegial body. Candidates to the members of the Company's collegial body are offered by the main shareholder.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the	No	Company's Supervisory Board, elected on August, 2012 consists of seven dependent members who are also members of Kaunas city municipality council and they meet criteria indicated in item 3.7 of recommendations, except criteria 4, because they partly represent controlling shareholder, i.e. Kaunas city municipality having 92.82 % of votes.

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

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

<p>supervisory board) of the company or any associated company and has not been such during the last five years;</p> <p>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</p> <p>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</p> <p>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, advisory and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12</p>		
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<p>years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p> <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>		
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	Yes	The Company discloses dependence of the members of Supervisory Board in this report.
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	Not applicable	Information provided by members of the Supervisory Board regarding their education, qualifications, professional experience, occupation and other important professional obligations and their relations with the Company is being presented in Company's annual and interim reports as well as in Company's website.
<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.⁶ The general shareholders' meeting should approve the amount of such remuneration.</p>	Not applicable	The members of the Supervisory Board are not remunerated from the Company's funds. So, this provision is not relevant for the Company.
<p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</p>		

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

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring⁷ of the company's management bodies and protection of interests of all the company's shareholders.

<p>4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.⁸</p>	<p>Yes</p>	<p>The Supervisory Board presents to the general shareholders meeting their opinions and proposals about the Company's activities, set of the annual financial statements, profit allocation project, the Company's annual report, the activity of the Company's general manager and the Management Board, and also carries out other functions allotted to the Supervisory Board competence regarding the Company's and its managing bodies activity supervision. The Chairman of the Supervisory Board regularly meets the Chairman of the Management Board and the General Manager to discuss the events or changes of the Company that have taken place, also the essential questions of the Company's activity.</p>
<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes</p>	<p>According to the knowledge of the Company all the members of the Supervisory Board are acting in good faith in the interests of the Company following the Company's but not the own interests or interests of the third persons.</p>

⁷ See Footnote 3.

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

<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half⁹ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>The members of the Company's Supervisory Board devote enough time and pay enough attention individually and collectively for the functions assigned to the competence of the Supervisory Board to carry properly. All the members of Supervisory Board took part in more than a half sessions of the Supervisory Board during Company's financial year. A quorum determined in all standard acts was present in all sessions of Supervisory Board in 2012. Members of Supervisory Board participating in session are registered in session protocol and in list of session participants.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>The Company's Supervisory Board in its work aim to behave honestly and impartially with all of the Company's shareholders and by the knowledge of the Company, there was no such kind of the contrary case. The Chairman of the Company's Supervisory Board and the Chairman of the Management Board harmonizes and coordinates interaction with Company's General Manager and in the name of Supervisory and Management Boards communicates with shareholders, informs the shareholders about the Company's strategy, activity and other essential questions.</p>
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>Company's management bodies conclude and approve their contracts following requirements of legal acts and Company's Statute. Members of Company's supervision or management bodies or shareholders are not concluded any contracts with Company, including of a big value or concluded in non-standard conditions.</p>

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

<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies¹⁰. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.</p>	<p>No</p>	<p>As members of the Supervisory Board are partly related with Kaunas city municipality because they are members of Kaunas city municipality council, all their decisions are made only following Company's interests. Company's Supervisory Board is independent from Company's management bodies. Based on the Company's opinion, the collegial body and the Audit Committee are provided with sufficient resources, including their right to get all the necessary information, especially from the employees of the Company. Remuneration is not set up in the Company because the salaries of the managers of the Company, their deputies and of the chief accountant are determined according to the schedule approved by Kaunas municipality used in the municipality enterprises. The schedule of accounting and allocation of employees' variable part of salary is presented in the annex of the Company's collective agreement. Determination of per cent of variable part of salary, accounting and allocation of variable part of salary is detailed in this schedule.</p>
<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees¹¹. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be</p>	<p>No</p>	<p>Starting from 31 March 2009 an Audit Committee which has three members is formed by the Supervisory Board. The Nomination and the Remuneration Committees are not formed in the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No. 4.6. In the future, the Company will seek to implement this provision.</p>

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

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

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

<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	No	<p>The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6. The information on composition of the Audit Committee, the number of sessions and attendance during the year 2012 is being announced in this Annual Report.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	No	<p>The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6.</p>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <ul style="list-style-type: none"> • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. <p>4.12.2. Nomination committee should consider proposals by other parties, including management</p>	No	<p>The Company does not form the committee which would be obligated to perform all of the tasks that were designated for the Nomination Committee. These functions are partly being performed by Supervisory Board and / or Company's Management Board.</p>

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

<p>disclosure (in particular the remuneration policy applied and individual remuneration of directors);</p> <ul style="list-style-type: none"> • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ul style="list-style-type: none"> • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ul style="list-style-type: none"> • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, 	Yes	<p>However, as of 31 March 2009 the Audit Committee of three members was formed by the Supervisory Board. The term of office of this committee coincides with the term of office of the Company's Supervisory Board. This committee will seek to fully implement functions assigned to it by this recommendation.</p>

reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;

- Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;

- Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;

- Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.

4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge

<p>of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor’s work program, and should be furnished with internal audit’s reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body’s structure, work organization and ability to act as a group, evaluation of each of the collegial body member’s and committee’s competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	<p>No</p>	<p>There was no practice of assessment of the activity of Supervisory Board at the Company and of informing shareholders about that up to now because the controlling shareholder who proposes candidates to the Supervisory Board exhaustively knows the experiences and competences of each candidate. The Company will seek to implement this provision in the future.</p>

Principle V: The working procedure of the company’s collegial bodies

The working procedure of supervisory and management bodies established in the company should ensure efficient

operation of these bodies and decision-making and encourage active co-operation between the company's bodies.		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company fully implements this recommendation. The Company's Supervisory Board and Management Board are run by the Chairman de jure and de facto. In accordance with the work regulations of the bodies the chairmen of Supervisory Board and Managing Board convenes meetings, ensures proper informing about convening meeting and about agenda of the meeting. This recommendation is fully implemented by the Supervisory Board and by the Managing Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month ¹² .	Yes	This recommendation is implemented by the Supervisory Board and by the Management Board.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The Company follows the order foreseen in the work regulations of the Supervisory Board and the Management Board and the information about the convened meeting is presented in advance together with an agenda and all the necessary information and documents related to the meeting agenda. The Supervisory Board and the Board meeting agenda may be changed or added during the meeting, in the presence of all members of the collegial body, or when there is an urgent need to deal with Company's certain key issues.

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

<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>Yes</p>	<p>The chairmen of Company's supervisory and management bodies coordinate dates of the meetings, their agendas and cooperate in solving other issues of corporate governance.</p>
<p>Principle VI: The equitable treatment of shareholders and shareholder rights</p>		
<p>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</p>		
<p>6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	<p>Yes</p>	<p>The ordinary registered shares which make the authorized capital of the Company give the equal rights for all share owners.</p>
<p>6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.</p>	<p>Yes</p>	<p>The Company allows investors to take a look at the rights conceded by newly issued or already issued shares. Company's Statute in which the rights conceded to Company's shareholders are determined, are publicly announced in Company's website.</p>
<p>6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.¹³ All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.</p>	<p>No</p>	<p>In compliance with the Law on the Joint Stock Companies and the Company's statutes the transactions confirmation issues foreseen in this recommendation are ascribed to the competence of the Management Board but in individual cases for the asset disposal transactions the Company applies to the shareholders meeting.</p>
<p>6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.</p>	<p>Yes</p>	<p>There is a possibility for shareholders to vote in advance by filling up a general vote bulletin.</p>

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

<p>6.5. If it is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	<p>Yes</p>	<p>Information about the draft shareholders decisions and the decisions taken by the shareholders meeting the Company publicly places on the Company's website and disseminates it through the Stock Exchange NASDAQ OMX, Vilnius GlobeNewswire used information dissemination system, as it is foreseen in the Law on the Joint Stock Companies not only in Lithuanian, but also in English.</p>
<p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>Yes</p>	<p>The shareholders of the Company can implement the right to participate in the General meeting of shareholders personally or through their representatives if the person has a proper authorization or the voting right delegation agreement is made with him in compliance with the legal acts order. The Company also creates conditions for the shareholders to vote in advance in writing by completing the general voting bulletin as it is foreseen by the Law on the Joint Stock Companies.</p>
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>Not applicable</p>	<p>According to the order of the Company's shareholders meetings and the lists of shareholders, there was no need to implement this recommendation in the Company up to now.</p>
<p>Principle VII: The avoidance of conflicts of interest and their disclosure</p> <p>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</p>		

7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The members of the Company's Supervisory and of the managing bodies act in accordance with the interests of the Company and their competences and individual features suggest that they behave so as to avoid conflicts of interests and they were not observed in practice. The members of the Company's Supervisory and of the managing bodies did not conclude deals with the Company, including high value deals or ones made in not standard conditions.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The members of the Company's supervisory and management body are not entered into transactions with the Company, including those consisting of high value or non-standard conditions.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	In accordance with regulations of Company's supervisory and management bodies, the provisions of the Law on Joint Stock companies of the Republic of Lithuania, the members of the Company's Supervisory and of the managing bodies must abstain from voting when decisions on deals or other questions in which they have a personal or professional interest.
<p>Principle VIII: Company's remuneration policy</p> <p>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</p>		

<p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.</p>	<p>Not applicable</p>	<p>The Company does not announce the report on the Company's remuneration policy. The remuneration policy as provided in this recommendation is not confirmed in the Company because this is not determined by the valid legal acts. The remuneration for the Supervisory Board and the Management Board of the Company is determined by the shareholders meeting, notwithstanding it is never been allotted up to now. The remuneration of the managing director is determined by the Managing Board considering the schedule of remuneration order of managers of municipal enterprises, companies, municipal controlled joint-stock and close-end companies, their deputies and chief accountants approved by Kaunas municipality. Considering this schedule the remuneration of the deputies and chief accountant of the Company is determined. Estimating this there was no need to prepare separate remuneration policy. Nevertheless in compliance with the legal acts orders, the Company publicly announces the information on the termination payments and loans for the members of the Supervisory Board, the Management Board and administration (General Manager, Chief accountant) in the annual report. The information regarding average remuneration of employees of the Company is also announced in Company's website.</p>
<p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ul style="list-style-type: none"> • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • An explanation how the choice of performance criteria contributes to the long-term interests of the company; • An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; • Sufficient information on deferment periods with regard to variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; 	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>

<ul style="list-style-type: none"> • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • Sufficient information on the policy regarding termination payments; • Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; • Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; • Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; • A description of the main characteristics of supplementary pension or early retirement schemes for directors; • Remuneration statement should not include commercially sensitive information. 		
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company, but the information on the termination and other payments is publicly announced in the Company's annual report.
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant 	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.

additional remuneration paid to directors for special services outside the scope of the usual functions of a director;

- Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;
- Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.

8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:

- The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;
- The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;
- The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;
- All changes in the terms and conditions of existing share options occurring during the financial year.

8.5.3. The following supplementary pension schemes-related information should be disclosed:

- When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;
- When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.

8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial **report** of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.

8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Not applicable	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Not applicable	
8.11. Termination payments should not be paid if the termination is due to inadequate performance	Not applicable	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.13. Shares should not vest for at least three years after their award.	Not applicable	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	

<p>8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).</p>	<p>Not applicable</p>	
<p>8.16. Remuneration of non-executive or supervisory directors should not include share options.</p>	<p>Not applicable</p>	
<p>8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.</p>	<p>Not applicable</p>	
<p>8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	<p>Not applicable</p>	
<p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>Not applicable</p>	

<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. 	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the Company does not use schemes under which the directors can be remunerated with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.</p>
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	<p>Not applicable</p>	
<p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	<p>Not applicable</p>	

<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company’s website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company’s website.</p>		
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Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	<p>The Company follows all the requirements foreseen by the law for the stakeholders' opportunities to participate in the management of the Company, but any group of interest, having the right to participate in management of the Company, determined by the law, is not created yet in accordance with law.</p>
<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company’s share capital; creditor involvement in governance in the context of the company’s insolvency, etc.</p>		
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>		

Principle X: Information disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

- 10.1. The company should disclose information on:
- 1) The financial and operating results of the company;
 - 2) Company objectives;
 - 3) Persons holding by the right of ownership or in control of a block of shares in the company;
 - 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;
 - 5) Material foreseeable risk factors;
 - 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;
 - 7) Material issues regarding employees and other stakeholders;
 - 8) Governance structures and strategy.

This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.

10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.

10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.

10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7

Yes

The Company discloses information, provided in this recommendation, in the reports, in the annual and interim reports, the Company's website and Centre of Registers electronic publication, in which the public information of legal persons are announced, except the report of remuneration policy determined in VIII principle. This report is not prepared in the Company because of the reasons foreseen in the article No. 8.1., and it is not approved, as it is not required by the law. According to the Law on Companies and to Company's Statute the remuneration for the members of the Company's Supervisory Board and of the Management Board can be determined by the meeting of shareholders, but it has not yet been assigned up to now (all of this is described in detail in annotation of VIII recommendations). The company also attempts not to disclose the information that can affect the price of Securities issued by the Company in the comments, interviews or other means, as long as such information will be publicly announced at the NASDAQ stock exchange OMX Vilnius used GlobeNewswire dissemination system on the Company's website.

of Recommendation 10.1 is under disclosure.		
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company simultaneously presents the information through the Stock Exchange NASDAQ OMX Vilnius used information dissemination system GlobeNewswire in Lithuanian and English languages as it possible. The Stock Exchange NASDAQ OMX, Vilnius places received information on its website and in trading system assuring simultaneous presentation of this information to all. In addition, the Company strives to announce the information before or after a trading session on the Stock Exchange NASDAQ OMX Vinius and to present it to all the markets in which there is trade in the Company's stocks at the same time. The Company does not provide the information which can have an influence on the price of its issued stocks on comments, interview and other ways till this information is publicly announced through the Stock Exchange NASDAQ OMX Vinius used dissemination system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Company's information is published on its website in Lithuanian.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	All the information provided in this recommendation is announced publicly and placed on the Company's website, on the website of Stock Exchange NASDAQ OMX Vilnius and it can be reached by all the interested persons.
Principle XI: The selection of the company's auditor		
The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements	Yes	The set of annual financial statements and the annual report of the Company is verified by the independent audit company.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The candidature of the Company's audit company which accomplished audit of financial statements of the years 2010 – 2012, was presented to the General meeting of shareholders by the Management Board in compliance with the results of the public competition implemented in 2010.

<p>11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.</p>	<p>Not applicable</p>	<p>The information provided in the recommendation was not presented to the shareholders because the audit company did not provide non-audit services for the Company in the year 2012.</p>
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