

**AB KAUNO ENERGIJA CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2010**



**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 Lithuanian Securities Commission**

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 2010 of AB Kauno Energija (hereinafter referred to as the Company) prepared in accordance with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and all the consolidated companies, and that the Consolidated Annual Report for the year 2010 contains a fair disclosure of business development and overview of activities, the state of the Company and the consolidated companies together with the description of exposure to key risks and uncertainties.

Kauno Energija AB General Manager

Rimantas Bakas

Kauno Energija AB Chief Accountant

Violeta Staškūnienė



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## 1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Annual Report of AB Kauno Energija has been prepared, is the year 2010.

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

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

### The main data about the Company:

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

### The main data about the subsidiary:

Name of the company:	UAB Pastatų Priežiūros Paslaugos
Legal - organizational form:	Private company
Address:	Savanorių ave. 347, 49423 Kaunas
Telephone number:	(+370 37) 305 959
E-mail:	<a href="mailto:info@kaunoenergija.lt">info@kaunoenergija.lt</a>
Webpage:	<a href="http://www.p-p-p.lt">www.p-p-p.lt</a>
Fax number:	(+370 37) 311 877
Registration date and place:	1 July 2006, Kaunas
Code of the legal person:	300580563
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 – 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. In addition, in small quantities it produces electric energy in Kaunas city and Kaunas district. Since 1 May 2010 the Company supplies hot water (carry out hot domestic water supplier activities) for part of multifamily residential buildings in Kaunas and Jurbarkas cities and Kaunas region (in March 2011 the number of houses reached 143, including – 3 in Kaunas region and 5 in Jurbarkas). The Group and the Company carry out supervision of indoor heat and (or) hot water supply systems, maintenance of heating substation facilities, repairs of buildings and constructions, repairs of heating substations and other heating facilities, provides rental services of transport and premises, and other services to individuals and legal entities in relation to the supervision and maintenance of heat economy. The Group and the Company are engaged in licensed activity in accordance with the licenses held.





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

On 1 April 2003 the Issuer signed Service Agreement with AB SEB Bankas (company code 1202123, 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 2010, the 20,031,977 of Issuer's ordinary registered shares (twenty million thirty one thousand nine hundred seventy seven) (VP ISIN code LT0000123010) with total nominal value equal to LTL 120,191,862 (one hundred and twenty million one hundred ninety one thousand eight hundred sixty two) were included into NASDAQ OMX Vilnius Stock Exchange Baltic secondary trade list.

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

Chart 1

At the end of 2010, the Group covered about 90% and 95% of heat supply market in Kaunas and Jurbarkas cities, respectively, and about 15% of maintenance of indoor heating and hot water supply systems and heat substation facilities market in Kaunas city. 2,353 enterprises and organizations, as well as consumers from 114,929 units of residential households were connected to the integrated and local heat supply network of the Company.

In 2010, the Group and the Company earned LTL 4,167 thousand and LTL 3,737 thousand profit (after tax), respectively. The Group's and the Company's income from the main activity amounted to LTL 306,856 thousand and LTL 305,441 thousand, respectively. The major part of income was generated from sales of heat: the Group's – 98.60%, and the Company's – 99.07%.

The mission of the Company is to be a profitable and competitive company engaged in energy production, supply and distribution in Kaunas district. The vision of the Company is to be a company using modern, effective and environmentally friendly technologies and management approach, as well as having a positive image of the Company within the community.

The strategic goal of the Group is to maintain its current position in the market, and to expand it. Special attention to consumers, high work quality are the main values and aims, on which the performance of all employees within the Group is based. In order to remain competitive in the market and to offer high quality services for the consumers it is required to constantly improve the quality and efficiency of services of heat supply and maintenance of indoor engineering systems, to improve reliability of heat supply and to increase efficiency of energy generation.

In 2010, the Company's revenue from sales of heat reached LTL 302,602 thousand, comparing to 2009, it increased by 9.2%. (see Chart 2).

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

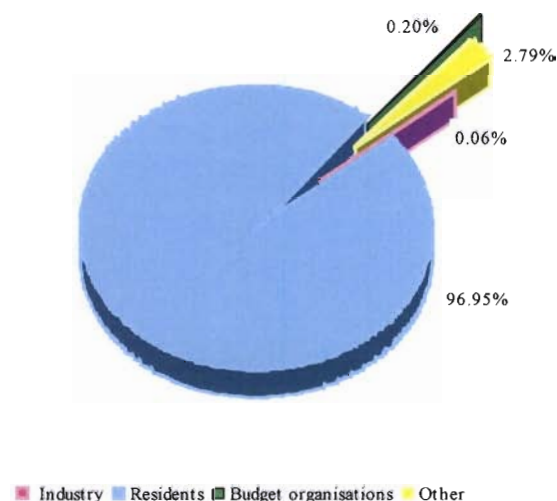
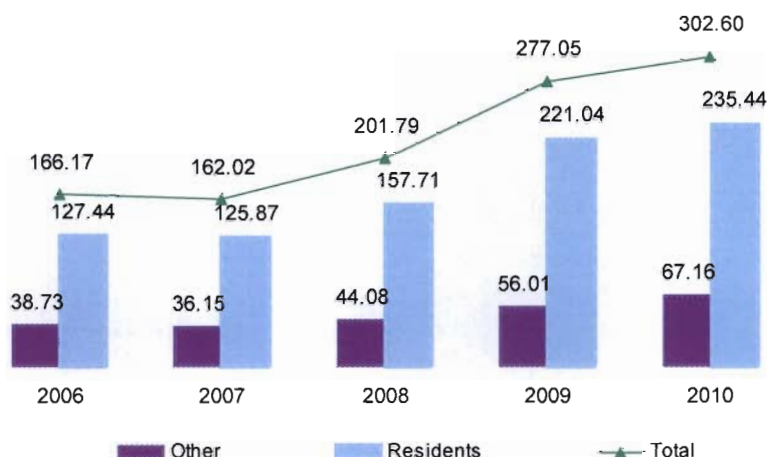


Chart 2

Heat sales income according to the groups of customers  
(million LTL)



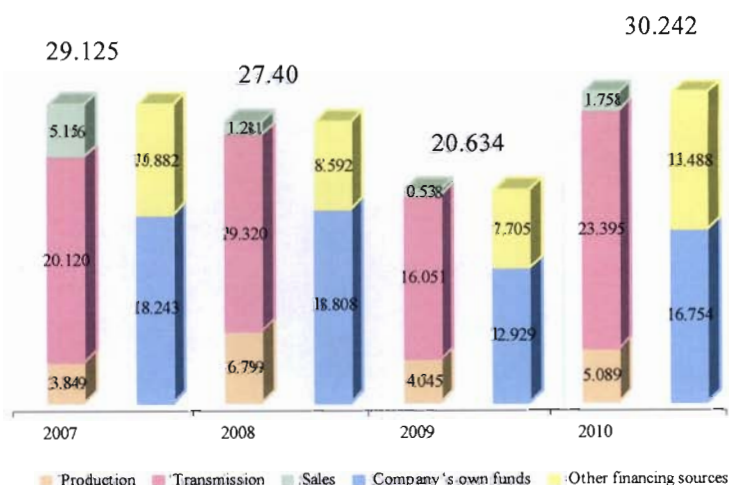
Already today it can be stated that the Group's investments into modern technologies (the automation of isolated and integrated network's boiler houses, automated consumer billing system, distant heat meters' data transfer and processing system, modern customer servicing system based on 'One Call' principle), renewal and development of heat supply pipeline help the Company to quickly adapt to changes in the market and to become an innovative company engaged in heat energy supply and maintenance of indoor engineering systems in Kaunas district.

In 2010, the Company did not implement the planned investment program. During 2010, the Company invested LTL 30,242 thousand (LTL 13,488 thousand from which represent funds from other sources, i.e. loans of commercial banks, contributions of shareholders and financial support from the European Union Structural Funds), from which LTL 682 thousand was allocated to connect 9 new consumers to the centralized heat supply networks with total capacity of 11.076 MW. During 2010, the invested funds were used to build new heat supply networks (2.468 km), and to reconstruct and repair the already existing heat supply networks 5.909 km. The Company's investments are illustrated in Chart 3.

Chart 3

For the period 2007-2010 issuer's used amount of the investment reflects the evolution of national and global macro-economic processes: in 2007 Company used LTL 29.12 million, in 2008, in the beginning of an economical slowdown processes, the amount of investments decreased to LTL 27.4 million, in 2009 investments were slightly above LTL 20 million. In 2010 investment performance increased by 46% (comparing to 2009) amounted to LTL 30.144 million. Such increase of investments can be linked to the growth of profitable Company's activity, sub-

Investment trends and sources in 2007-2010 (LTL million)



investment from the European Union structural funds, the improvement of credit terms (interest rate stabilization), the country's economic recovery following the recession and optimistic expectations.





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

*External risk factors* affecting the main activity of the Group include inflation, economical crisis, increase in fuel prices, unfavorable laws, governmental legislation and orders of other institutions, methodology interpretation, local self-government decisions, and price policy.

Different interpretation of theoretical methodologies (International Financial Accounting and International Valuation Standards) caused a different opinion of the auditors and the Company's management concerning Company's property - the collectors - value and valuation methods. Collectors, which are non-commercial constructions and were installed with heat, hot and cold water supply pipes and other infrastructural communications, which ensure that part of the Kaunas city population have access to use quality services, defined as a public service, that means services to ensure that residents receive heat, hot and cold domestic water. There are pipelines in the collectors, such as: heat supply 61.48 km (supply and return lines), the hot domestic water supply - 56.84 km (supply and return lines), cold domestic water supply - 33.67 km. Without mentioned there are installed 169.5 km communications owned by the company AB TEO LT, 25 km electric cables owned by AB LESTO (earlier VST), 91.23 km other various telecommunication and IT service provider's cables. The purpose of collector construction (when the owner of the building was Kaunas city municipality) was to install infrastructural non-commercial facility, which would be equipped with the communication required for Kaunas city population, and these collectors were not expected to earn revenues from services to recipients of the Kaunas residents. Kaunas City Municipality in 2009 transferred to exploit these public infrastructure facilities (collectors) to AB Kauno Energija (93% of the Company's shares are owned by Kaunas city municipality). The decision indicated that collectors would be transferred to the Company's share capital, as a contribution in kind. As required by law, the property valuation was made for public infrastructural facilities - accounted for in Kaunas city balance sheet. The valuation was performed by UAB "Ober - Haus". The valuation has been carried out in accordance with the "Property valuation method" approved by Government of Lithuania Republic in 14 February 1996 resolution No. 244 "Concerning property valuation methodology", "Property and business assessment base law" 25 May 1999 law No. VIII 1202, resolution of Government of Lithuania Republic 13 December 1999 No. 1389 "On the property and business of Lithuanian Republic valuation base implementation", Property appraiser's professional code of ethics, approved by the Lithuanian Republic Auditing, accounting and valuation Institute Board in 14 September 2000 resolution No. 277, approved by European and International Valuation Standards TVS 2001, 2002, 2003; EVS 2000, 2003. The property (collectors) transferred to AB Kauno Energija were accounted for according to the value, that was determined by valuers. According to the Company, based in the State Enterprise Centre of Registers of real estate data, the value is specified in accordance with the value determined by independent assessors, which amounted to LTL 136,200 thousand, collectors' value is correct, method of determining the property - correct. This property (collectors) is a public facility to ensure the delivery of public services to Kaunas city residents, non-commercial and not for resale and depreciation of this asset is not included in the calculation of heat price. This value is accepted by all financial institutions in Lithuania, from which the Company has received loans for financing investment projects (with or without the European Union Structural Funds). In addition, there are more of examples in Lithuania, where the asset of energy facilities and infrastructure is valued by using this particular value determination method - the depreciated replacement cost method.

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



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

*Table 1*

	2006 capacity, MW	2007 capacity, MW	2008 capacity, MW	2009 capacity, MW	2010 capacity, MW	2006–2010 capacity, MW
Consumers' disconnections	4,199	1,917	2,374	1,95	1,10	11,54
Consumers' connections	22,921	11,58	11,82	1,29	10,14	47,611

During the connection of new consumers, attention is paid to heat supply market growth opportunities. The improvement of thermal insulation characteristics of buildings and reconstruction of heating systems reduce heat demand for buildings. Seeking for rational heat consumption the consumers are able to reduce heat consumption by adjusting the necessary level of indoor temperature. Under the circumstances of economic crisis, the consumers tend to save even on the account of their comfort. Currently, economical situation has resulted in lower buying capacity of residents, slower development of commercial and services sector. In case the economical situation becomes even worse, it would affect the consumers' solvency and overall performance of heat supply and buildings' supervision services.

Inflation and overall economic recession, as well as lower incomes of heat consumers increase indebtedness of consumers, consequently, we are focused on improvement of organization of debt supervision.

Natural gas is main fuel used in the process of generation of heat and electricity energy. Increasing prices of fuel influence the heat and electricity energy production cost, as well as the purchase price of heat energy purchased from UAB Kauno Termofikacijos Elektrinė (Kaunas Heat and Power Plant).

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 2010 – 1.1 MW) and choosing alternative heat sources (gas, electricity or other types of fuel). The choice of the fuel type is regulated by Kaunas City Council 9 April 2009 decision No T-244 „Heat consumer facilities disconnection of heat supply system and procedure of change of the heating mode in premises or building initiated by consumer”

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

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

*Political factors.* During 2008 to 2009 there were significant changes in the laws regulating the Company's operation (the Lithuanian Law on Heat Economy (Žin., 2003, No. 51-2254; 2007, No. 130-5259; 2009, No. 10-355; 2009, No. 61-2402)) and heat pricing (*Methodology for Setting Heat Prices* (hereinafter – the Methodology) approved on 8 July 2009 by Resolution No. O3-96 of the National Control Commission for Prices and Energy (hereinafter – the Commission). According to heat energy price calculation project provided by the Company the basic price of heat supplied by Company is determined by the Commission every 4 years. The components of the basic heat price are determined in accordance with the procedure described in the Lithuanian Law on Heat for the period not shorter than 3 years and not longer than 5 years, and during the second and subsequent years they are applied by recalculating the components of heat prices. The invariable component is recalculated based on change in the cost of the adjustment factors that are affected by inflation, changes in realized heat volume, investment depreciation (amortization) and other factors that do not depend on the supplier's operation as set out in the Methodology. The invariable component is adjusted when the fuel structure is changed as set out in paragraph 80.2.1.1 of the Methodology, when the provisions of paragraph 87 of the Methodology are applicable or when electricity





generation gives profit (loss) at cogeneration power plant, it is used when reallocating the costs between heat and electricity generation in accordance with the procedure set out in the Methodology for Segregating Heat and Electricity Costs of Cogeneration Power Plants. The variable component of heat price may be adjusted based on changes in fuel structure, changes in operation efficiency tasks determined by the Commission, in accordance with the Description of Comparative Analysis approved by it and with reference to changes in electricity or consumable water prices. Based on paragraph 120 of the Methodology for Setting Heat Prices, heat prices may be set not more than every month with reference to the valid components of heat prices, when the variable component of heat price is expressed as a formula calculated in accordance with respective fuel and heat prices. In case the difference between the heat price calculated and the effective heat price is less than 5%, the latter may remain unchanged.

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

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

*Social factors.* The activity of the Group and the Company is important to many residents and companies of Kaunas district. The complaints received by the Group and the Company mostly relate to the amounts billed, low quality of services provided, insufficient attention to customers.

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

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

*Ecological factors.* The Group and the Company follow the requirements of the Helsinki Commission (HELCOM) and the Helsinki Convention for environmental limitations for the emissions of combustion products. The main pollution sources are: pollution of the atmosphere – organic fuel burning, and water pollution. The Group and the Company pay taxes for the atmosphere and water pollution every quarter. According to the Lithuanian Republic laws fines are paid if the allowable norms of permitted pollutions and yearly limits have been exceeded. The main measures adopted by the Group and the Company for the reduction of emissions are as follows: reduction of the heat transmission losses through the installation of pipes with the polyurethane-foam insulation, implementation of new technological equipment and improvement of the existing ones, use of more environmentally friendly fuel and constant monitoring of pollution levels (in the balance of fuel, natural gas dominates – 91.53%, heavy fuel oil – 0.03%, peat – 4.54%, biogas – 0.98%, wood residues (sawdust, cutting) – 2.92%.

*Repayment of bank loans:* Detailed information is presented in the AB Kauno Energija Consolidated and the Parent Company's Financial Statements for the year 2010, Note 11. The Group and the Company repay loans to banks in due time.

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

It was planned in 2010 sales revenue and sales quantity of heat will be a similar level as in 2009. In 2010 sales revenue compared with 2009 increased 9.2 %. This change was mainly caused by higher sales volumes and the price of heat, which in December 2010 was 22.9% higher than in December 2009.



Heat sale in 2010 was 10% higher due to lower average annual temperatures (-0.68 C°). During the heating season the average temperature was 1.39 C° in 2009, -0.81 C° in 2010.

The comparison of financial ratios for 2010 with the ones for 2009 and 2008 is given in Table 2 below.

							Table 2
No.	Financial ratios	Company 2008	Group 2008	Company 2009	Group 2009	Company 2010	Group 2010
1	Net profitability, % (net profit /sales and services)*100	-2.1	-2.1	2.5	2.3	1.2	1.4
2	Return on tangible assets, % (net profit/average value of tangible assets)*100	-2.7	-2.6	2.9	2.7	1.2	1.3
3	Debt ratio (liabilities /assets)	0.52	0.53	0.32	0.33	0.37	0.37
4	Debt-to-equity ratio (liabilities / equity)	1.1	1.12	0.5	0.5	0.6	0.6
5	General liquidity ratio (short-term assets /short-term liabilities)	0.91	0.91	1.05	1.04	0.93	0.93
6	Asset turnover ratio ( sales and services/ assets)	0.84	0.86	0.73	0.74	0.74	0.75
7	EBITDA (earnings before interest, taxes, depreciation and amortization) LTL thousand	16,825	16,987	28,909	28,790	25,974	26,577
8	Gross profit margin (gross profit/sales and services)*100	-1.1	-1.4	3.8	3.7	2.3	2.4
9	Operating margin (operating profit/sales and services)*100	-1.1	-1.4	3.8	3.7	2.3	2.4
10	Return on equity (ROE) % (net profit/average equity)*100	-3.7	-3.7	3.7	3.5	1.4	1.6
11	Return on assets (ROA) % (net profit/ average assets)*100	-1.9	-1.9	2.2	2.1	0.9	1.1
12	Quick ratio((short-term assets-inventory)/short-term liabilities)	0.84	0.84	0.97	0.97	0.88	0.88
13	Cash ratio (cash in hand and at bank / short-term liabilities)	0.04	0.04	0.04	0.04	0.04	0.04
14	Net earnings per share (net profit/average weighted number of shares in issue)	-0.22	-0.21	0.24	0.22	0.09	0.10
15	Net profit, LTL thousand	-4,343	-4,235	6,928	6,404	3,737	4,167
16	Assets, LTL thousand	244,782	240,520	384,012	379,746	410,541	406,762
17	Equity, LTL thousand	116,627	113,277	259,755	255,882	260,585	257,142
18	Equity per share, LTL	5.9	5.7	6.09	6.0	6.1	6.0
19	Revenue from sales and services, LTL thousand	205,233	205,974	279,548	280,411	305,441	306,856
19.1	Heat energy	201,793	201,760	277,053	277,001	302,602	302,546
19.2	Electric energy	506	506	393	393	349	349
19.3	Supervision of indoor heating and hot water supply systems, heating substation facilities	2,934	3,708	1,450	2,365	566	2,037
19.4	Income from emission permits and maintenance of collectors	-	-	535	535	439	439
19.5	Hot water supply	-	-	-	-	1,485	1,485
19.6	Income from Emission Allowances trading	-	-	117	117	-	-
20	P/E ratio (the last share market price of the year /(net profit/number of shares at year-end)	-9.17	-9.41	10.18	11.01	23.68	21.24





21	Share capital, LTL thousand	119,510	119,510	255,710	255,710	256,392	256,392
22	Share capital-to-assets ratio	0.49	0.49	0.67	0.67	0.62	0.63
23	Return on equity (capital) (net profit/ capital and reserves)*100	-3.6	-3.5	2.7	2.5	1.5	1.6

Chart 4

The comparison of the Company's financial results for 2010 (sales revenue, operating profit, net profit) with those for 2006 - 2009 is given in Chart 4.

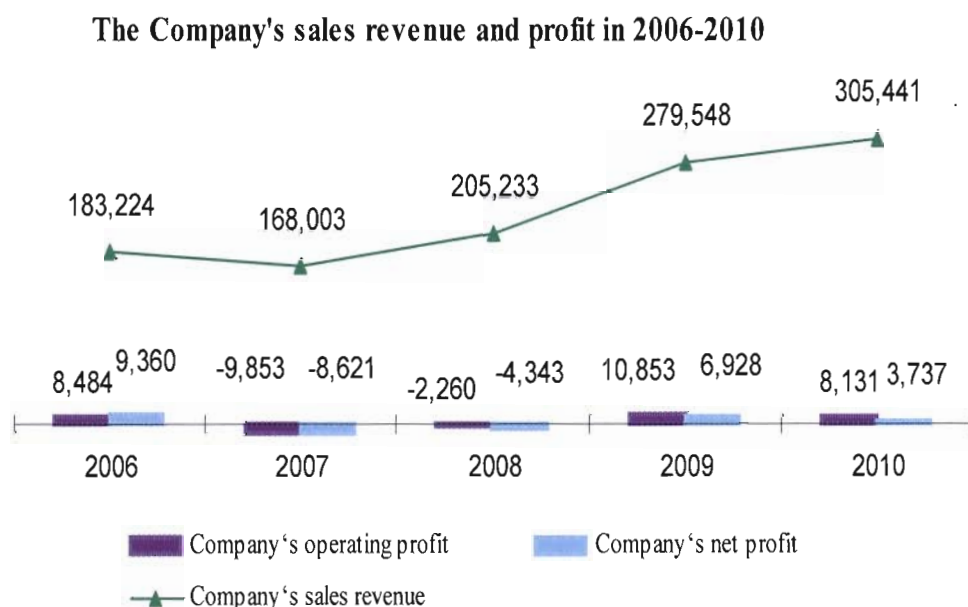
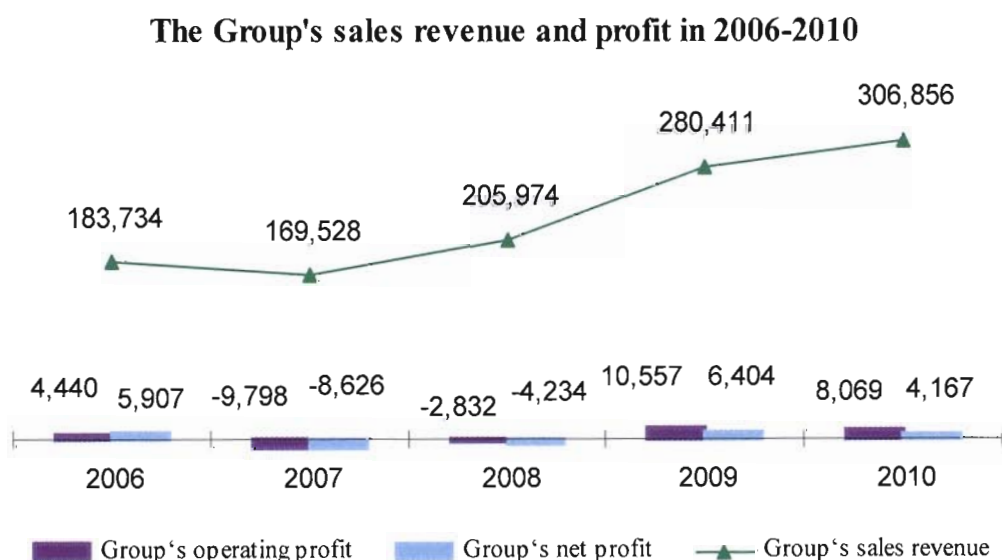


Chart 5

A more detailed analysis of the Group's and the Company's financial results is presented in the Notes to the Financial Statements for 2010.





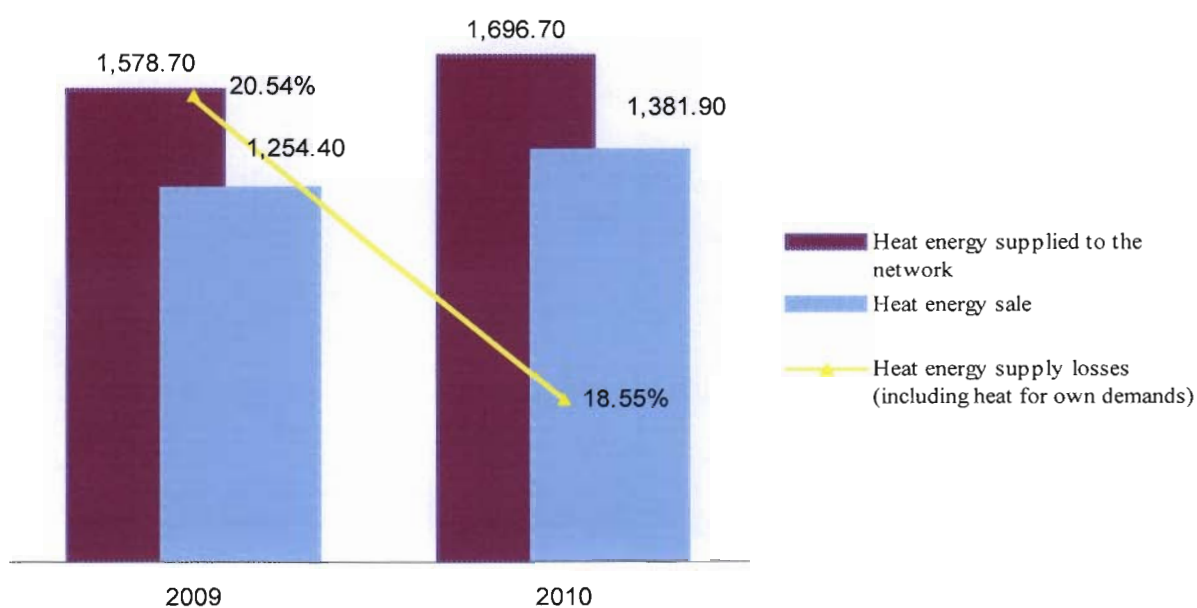
The comparison of non-financial indicators for 2010 with the ones for 2008 - 2009 is given in Table 3 below.

Table 3

No.	Non-financial indicators	Measure units	Company 2008	Group 2008	Company 2009	Group 2009	Company 2010	Group 2010
1.	Energy produced and purchased: from which supplied to the network	thousand MWh	1,631.2	1,631.2	1,601.8	1,601.8	1,698.0	1,698.0
1.1.	Heat energy	thousand MWh	1,607.1	1,607.1	1,578.7	1,578.7	1,696.7	1,696.7
1.2.	electric energy	thousand MWh	2.3	2.3	1.3	1.3	1.3	1.3
2.	Energy sold	thousand MWh	1,280.7	1,280.5	1,255.7	1,255.7	1,383.2	1,382.9
2.1.	Heat energy	thousand MWh	1,278.4	1,278.2	1,254.4	1,254.4	1,381.9	1,381.6
2.2.	Electric energy	thousand MWh	2.3	2.3	1.3	1.3	1.3	1.3
3.	Heat supply networks reconstructed	m	5,068	5,068	3,599	3,599	6,030	6,030
4.	Heat supply networks newly constructed	m	1,861	1,861	340	340	2,470	2,470
5.	Maintenance of indoor heating and hot water supply systems (area maintained)	m <sup>2</sup>	898,465	1,133,182	249,823	896,276	235,796	870,780

Chart 6

Heat supply to the network (thousand MWh) and conditional losses (%)  
in 2009-2010



*Environmental impact on operation.* The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumers' investments into renovation of

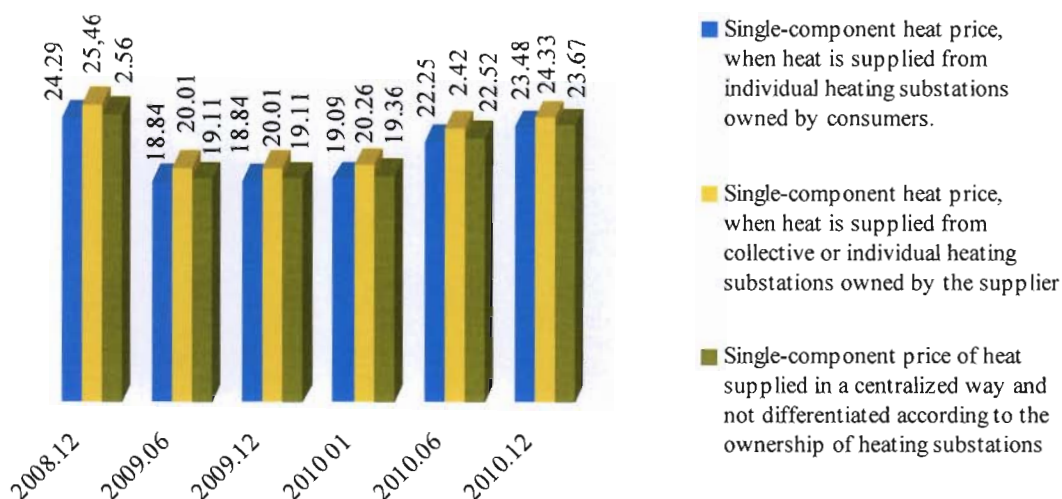


buildings, heat saving and rational consumption, average higher of lower outdoor temperature during the heating season, changes in fuel prices, heat purchase price from independent producers.

The change in the prices of heat supplied by the Company during 2008 to 2010 is demonstrated in Chart 7.

Chart 7

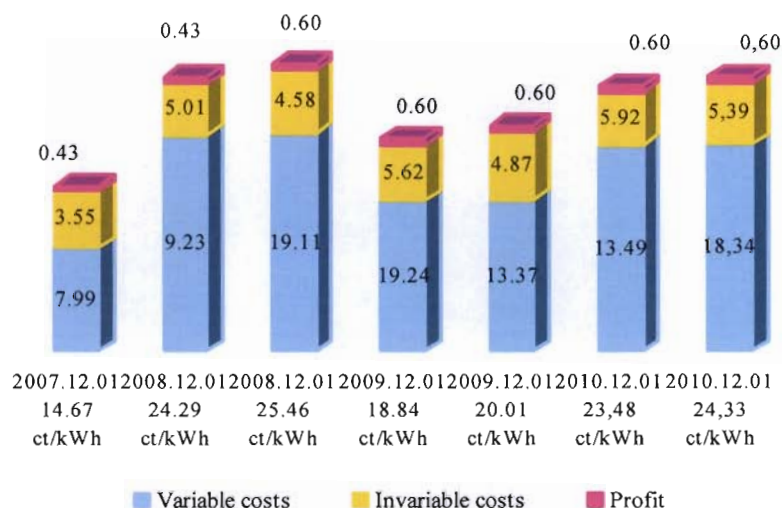
**The change in the price of heat supplied by Kauno energija AB (ct/kWh)**



Structure of the elements of heat price during 2008 - 2010 are given in Chart 8.

Chart 8

**Heat price element's (LTL)**



The average price of heat purchased by the Company in 2010 compared with 2009 increased by 0.58 ct/kWh (4.6%) and was 13.11 ct/kWh.

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



*Waste management:* the Group and the Company have implemented the processes relating to internally-generated waste collection, sorting and transfer to waste management entities, i. e. companies that have waste management licenses. During 2010, the Group and the Company transferred for recycling 114.501 tones of mixed household waste, 0.283 tones of mercury lamps, 0.18 tones of electric and electronic equipment waste, 2.24 tones of heavy fuel oil and diesel waste, 483.785 tons of scrap and 1.56 tones of used tires.

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

*Atmosphere pollution:* the Group's and the Company's stationary air pollution sources measurement laboratory acting under the permit issued by the Environment Protection Agency, continuously monitors whether release of pollutants to atmosphere from stationary pollution sources are in compliance with the established allowable limits as set out in pollution integrated prevention and control permits. Biofuel is burned at Ežerėlis, Girionys and Noreikiškės boiler-houses 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 2010, with 2007 - 2009.

Table 4

Type of pollutant	Solid particulate matters	Nitrogen oxides	Carbon monoxide	Sulphur dioxide	Hydro-carbon	Vanadium pentoxide	Other
Emitted in 2010, t	8.4833	65.8444	146.8925	7.3386	2.6571	0.000	0.4397
Emitted in 2009, t	9.700	72.700	179.800	8.900	3.400	0.000	0.400
Emitted in 2008, t	12.959	67.094	209.778	12.404	27.607	0.007	0.440

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, Šilko boiler-house, Garliava boiler-house, Noreikiškės boiler-house together with cogeneration power plant, branch office Jurbarko Heat Networks.

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

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

All main financial data has been presented in the financial statements and notes for the year 2010.

*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

The Company's audit for year 2010 performs an independent auditing firm, in the Second Ordinary Shareholders Meeting in 13 May 2010 the audit company UAB "Deloitte Lietuva" (Audit Certificate Nr.111473315, J.Jasinskio st. 16B, LT - 01112 Vilnius) have been elected to audit the consolidated and Company's financial statements for the years 2010 – 2012.

In 21 February 2011 a Board meeting of AB Kauno Energija was held, which was the subject of "Concerning the AB Kauno Energija Board 24 November 2010 decision "Concerning the joint venture" change and addition". AB Kauno Energija Board, considering AB Lietuvos Energija board's decision made in 11 February 2011 concerning the acquisition of Project company's shares part, reconsidered and changed the decision, approved earlier on 24 November 2010 No. 2010-33-2 "Concerning the joint venture" in case to make further steps for establishing the joint venture. In the above-mentioned Board meeting it was decided to replace AB Kauno Energija Board's decision's paragraph 2, made in 24 November 2010 No. 2010-33-2 "Concerning the joint venture", changing the Project company's shares number and set that: (i) AB Kauno Energija will acquire 33% and AB "Lietuvos Energija" - 67% of the Project company's shares and voted in general shareholders meeting; (ii) the share capital of the currently established Project company will be LTL 200,000 LTL (two hundred thousand LTL), the cost of the issuance of Project company's shares - LTL 200,000 (two hundred thousand LTL); (iii) the name of the Project company and the other Project company's details (including project company's management structure) will be determined in the Project company's establishment contract and statutes. Also, due to the mentioned decision, it was appointed for a working group (formed by the Company) in the project of the statutes, to foresee, that the majority of qualified general shareholders' votes, required by the Lithuanian Law on Companies Article 28, paragraph 1, shall be not less than 3/4 of all the shareholders, attending in the shareholders meeting with voting rights and decision-making, while according to the Law on Companies of Republic of Lithuania, the 28 article, paragraph 2 requires no less than four 4/5.

31 March 2011 the audit of year 2010 was completed. It was performed by Auditor Simonas Rimašauskas (auditor's certificate No. 000466). Audited financial statements and independent auditor's report concerning year 2010 accompany the Company's annual report.

Lithuanian Business Support Agency on 8 March 2011 reported the completion of valuation of applications fro "heat supply system modernization and development" (Call no. 02) assessment. All four AB "Kauno Energija" applications for more than LTL 6.36 million EU support were assessed as eligible. If requested assistance is approved, it would be used for reconstruction of district heating networks in Kaunas Dainava (1T), Aukštieji Šančiai (2Z), Vilijampole (9K) and Šilainiai (1Z) districts. All four applications met the assessment of administrative compliance, as well as eligibility and benefits, and quality assessment criteria. The support will still have to be approved by the Ministry of Economy.

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

In their future activity plans, the Group and the Company intend to further increase the efficiency of activity and to improve consumer service. In 2011, there are plans to continue the optimization and efficiency improvement of the Company's performance, carry out supervision of buildings heating and hot water supply systems, maintenance of heating substations and underground collectors - manifolds.

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 2011 is to further develop the Company's heat production, transmission and distribution through increase of heat supply reliability, expansion of maintenance services of engineering systems and improvement of services quality.

The major part of investments in 2011 is planned for the reconstruction and repair of heat supply networks, laying of new networks, closing of collective heating substations. In 2009 - 2010 the Company signed



agreements on financial support from structural funds, and the following projects will be implemented during 2011: (i) Complex reconstruction of Kaunas main heat supply networks 6T (unique No.1998-4014-3019), located at Kuršių str. 49C, Jonavos str. between NA-7 and NA-9, and of the networks under the bridge over the Neris laid through the highway Vilnius–Klaipėda beside Kaunas, for the purpose of improving reliability by implementing modern technologies second stage. Amount of investments is LTL 1.298 million, the EU's financial support contracted for LTL 0.78 million; (ii) Reconstruction of Kaunas city integrated network Centre main (4T). The project value amounts to LTL 12.25 million, the EU's financial support contracted for LTL 5.98 million; (iii) Reconstruction of Kaunas city integrated network Žaliakalnis main (4Ž). The project value amounts to LTL 5.69 million, financial support expected from the EU amounts to LTL 2.78 million.

In addition, there are plans to further develop the project, which was started back in 2004, for the implementation of distant data collection equipment for the existing and new consumers, since the implementation of these systems is further developed in heating substations located in blocks of flats and individual houses, as well as in other objects. This project is further developed to be able to monitor the quantities of heat produced, purchased and consumed in real time, to monitor heat losses and to ensure an effective management of heat networks and performance control, as well as technical parameters necessary to make certain decisions.

The implementation of investment plans in 2011 will involve: further modernization of boiler-houses owned by the Company, making the production process automated and mounting condensing economizers; reconstruction of heat networks; replacement of heat meters; repairs of underground collectors and other important works. Besides it is planned to implement solar heating project - in amount of LTL 90 thousand. The implementation of these measures will allow to reduce heat production, transmission and selling losses and to perform optimization of heat supply to the consumers.

There is prepared Partial investment plan and its financing sources of AB Kauno Energija for the period 2010-2015, implementing the National Renewable Energy Development Strategy action plan provisions, key objectives of the company and attitudes of National Energy Strategy related with heat sources and heat supply network security technical requirements, which guarantee the quality of heat supply to consumers. Kaunas city municipal council approved the projects "Installation of biofuel cogeneration power plants in Noreikiškės and Inkaras boiler houses", "Biomass burning boiler with up to 44 MW heat with 16 MW power steam turbine projection and reconstruction in Petrašiūnai Power Plant" and intended them in mentioned investment plan in amount LTL 168.72 million.

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 biofuel and rising prices. Otherwise an unstable geopolitical situation may cause fossil fuel prices growth scenarios. It is clear that the increasingly expensive fossil fuels will increase the heat production costs (currently in the futures markets prices increase of crude oil and natural gas is observed), and at the same time increase the price for purchased heat. In order to maintain an optimal balance in planning and implementing investment projects the Group pays a great attention to political and market trend forecasting and analysis.

It is planned that the Group's sales revenue and quantity of heat sold to consumers in 2011 will be lower compared to 2010. The Group's revenue and expenses will be mostly affected by changes in fuel price and heat purchase price, since the heat price is recalculated every month as prescribed by relevant regulatory legislation. The Group's profit is expected to be in the same level as in 2010. However, such forecasts may be affected by changes in heat demand, i.e. consumption level, which depends mostly on the average outdoor temperature, the scope of investments by consumers into the renovation of the blocks of flats, heat saving and rational consumption, as well as the changes of economic situation in Lithuania.

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

In 2008, by the order of the Company the Lithuanian Energy Institute accomplished its research project *The Strategy of AB Kauno Energija for the Development of Heat Supply System during the Period from 2007 to 2020*. According to the Terms of Reference prepared by the Company, the Institute assessed the Company's technical, economic and financial condition. These assessments were presented in a study on the





*Assessment of AB Kauno Energija Technical and Economic Condition* prepared by Energetikos Linijos UAB, as well as in a study on the *Assessment of AB Kauno Energija Financial Condition and Structure, and Recommendations for Further Development* prepared by Savvin UAB.

In 2009, UAB Energetikos Linijos updated the study on *Assessment of AB Kauno Energija Technical and Economic Condition* with data relevant for 2008; Savvin UAB submitted the final version of its study on the *Assessment of AB Kauno Energija Financial Condition and Structure, and Recommendations for Further Development*.

In 2010 on behalf of the Company Kaunas University of Technology has prepared Petrašiūnai Power Business Plan in which Company's heat sources assessment is made, as well as the analysis of the heat supply role of heat sources, made in the Kaunas city integrated network at the moment and in the future. Particular attention in this plan is paid for Petrašiūnai Power Plant study of current state and analysis of perspectives of this Power Plant.

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

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

## **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 2.15, 8, 23, 24 to the financial statements for the year 2010.

## **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.

On 17 October 2007 AB Lietuvos Dujos implemented the provisions of the Agreement signed in 2006 by AB Lietuvos Dujos, Jurbarkas district municipality and the Company for the Performance of Gas-fitting Works in Jurbarkas City, and the adaptation of boiler-house of the Company's branch office Jurbarko Šilumos Tinklai for burning natural gas was finished, which enabled to improve heat production and supply reliability. The Company avoided the need to burn heavy fuel oil with high content of sulphur at the same time avoiding emission of pollutants in excess of permitted emission levels. In 2009 the construction of condensing economizer was completed in the boiler-house of the Company's branch office Jurbarko Šilumos Tinklai.

At the end of 2010, the Company's branch office Jurbarko Šilumos Tinklai had 35 employees.

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

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

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

As at 31 December 2010, the Company's subsidiary had 65 employees.





## 15. Structure of authorized share capital

As of 31 December 2010 the registered authorized capital is LTL 256,391,862 (Two hundred and fifty six million three hundred and nineteen 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 31 December 2010 the registered authorized capital is LTL 256,391,862 (Two hundred and fifty six million three hundred and nineteen 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 2010).

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

### 16.2. The main characteristics of shares distributed and registered for circulation privately.

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

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

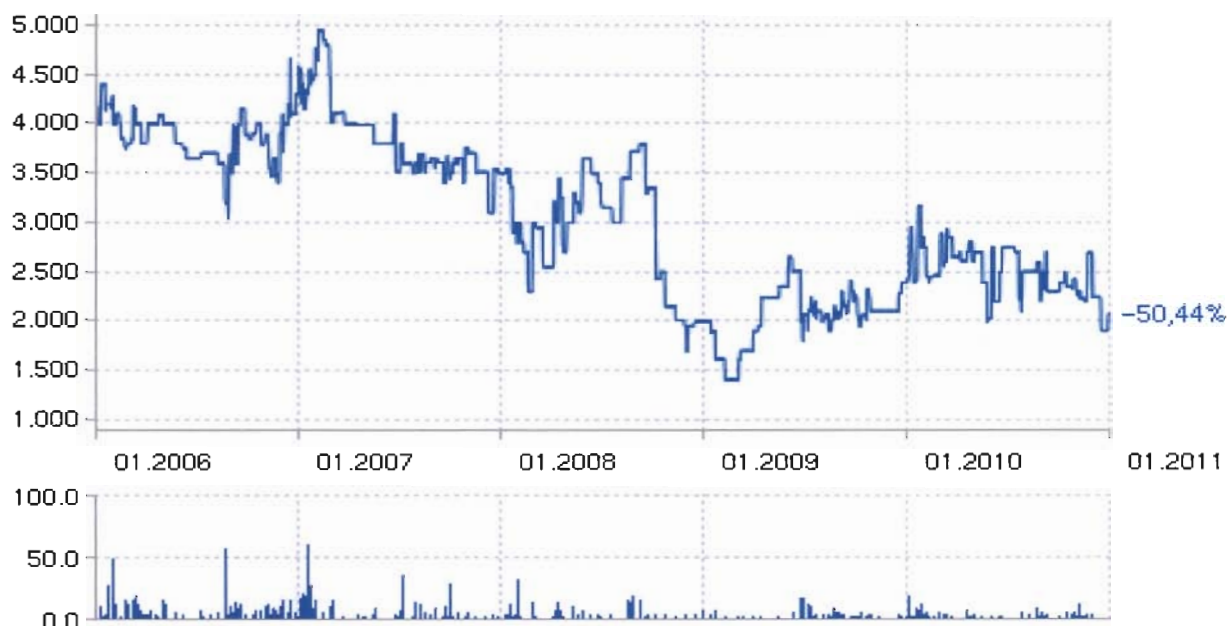
Table 6

Trading history data	2006	2007	2008	2009	2010
Open (litas/euro)	4.18/1.211	4.58/1.327	3.50/1.014	2.00/0.579	2.45/0.710
Highest (litas/euro)	4.67/1.353	4.95/1.434	3.80/1.101	2.650.768	3.18/0.921
Lowest (litas/euro)	3.05/0.883	3.10/0.898	1.70/0.492	1.41/0.408	1.903/0.551
Last (litas/euro)	4.30/1.245	3.50/1.014	2.00/0.579	2.40/0.695	2.072/0.600
Traded , units	183 008	138 163	82 775	92 418	77 729
Turnover million (litas/euro)	0.70/0.203	0.55/0.16	0.26/0.08	0.19/0.05	0.2/0.06
Capitalization million (litas/euro)	81.56/23.62	66.39/19.23	37.94/10.90	102.28/29.62	41.5/12.02



Historical data on share prices and turnovers during 2006 to 2010 is illustrated in Chart 9.

Chart 9



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

Chart 10

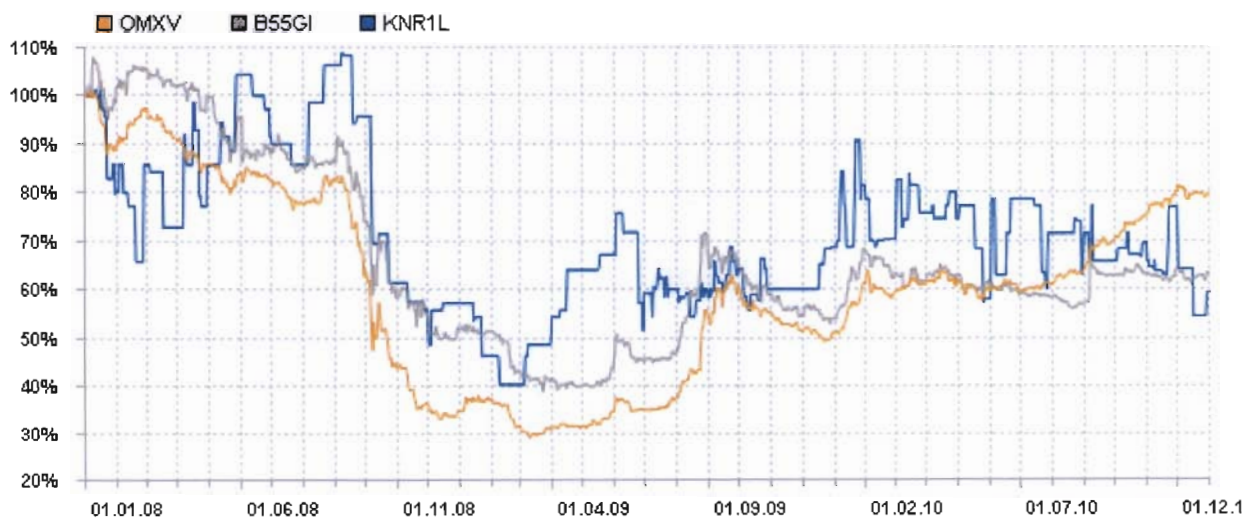


Chart 10 data:

Index/shares	1 Jan 2008	1 Jan 2011	+/-%
OMX Vilnius	514.23	409.65	-20.34
OMX Baltic Utilities GI	1,035.04	718.72	-36.68
KNR1L	1.01 EUR	0,60 EUR	-40.81



## 17. Information on the Issuer's shareholders

As of 31 December 2010, the total number of shareholders of AB Kauno Energija was 372

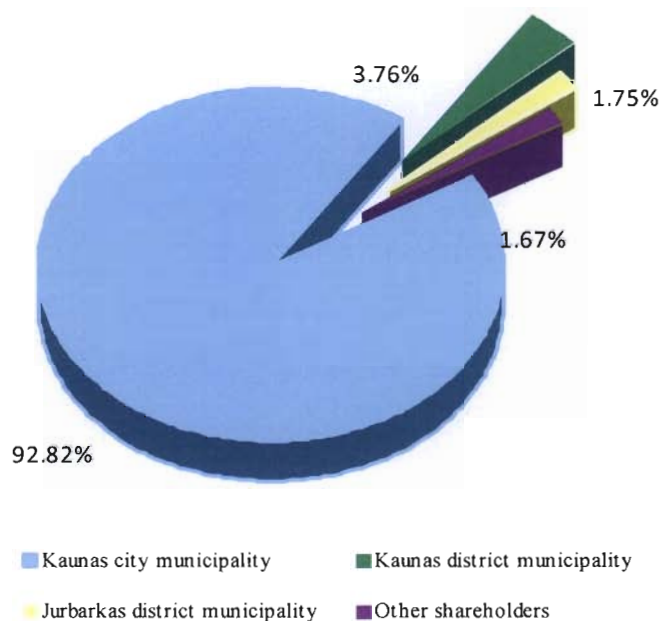
The Issuer's shareholders, whose ownership interest as at 31 December 2009 exceeded 1.5% of the Company's authorized share capital (42,731,977 ordinary registered shares) registered on 26 March 2010, are listed in Table 7 with additional data illustrated in Chart 11.

Table 7

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

Chart 11

Shareholders structure as at 31 December 2010



17.1. The shareholders, whose ownership interest as of 31 December 2010 exceeded 5% of the Company's shares (20,031,977 ordinary registered shares) issued for public trading (registration No. A01031430; VP ISIN code – LT0000123010), are listed in Table 8.



Table 8

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

17.2. The shareholders, whose ownership interest as at 31 December 2010 exceeded 5% of the Company's shares (22,700,000 ordinary registered shares) issued for non-public trading (VP ISIN code – LT0000128407), are listed in Table 9.

Table 9

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

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

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

In 2010 Issuer's shareholders received dividends. Earnings per share (dividend rate) – LTL 0.084, total dividends – LTL 3,589,486 (three million five hundred eighty nine thousand four hundred eighty six).

## 18. Employees

As of 31 December 2010, the Group had 647 employees. The change in the number of employees during 2008 - 2010 is illustrated in Table 10.

Table 10

The actual number of employees	Company 31 12 2008	Group 31 12 2008	Company 31 12 2009	Group 31 12 2009	Company 31 12 2010	Group 31 12 2010
Total:	598	654	531	601	582	647
managers	4	6	4	6	4	6
specialists	295	314	275	301	300	323
workers	299	334	252	294	278	318

In 2009, new management structures were approved for implementation at the Company and its subsidiary. For the optimization and improvement of efficiency of the Group's operations, restructuring processes were started at the Group companies in the middle of 2009. Upon the implementation of management



restructuring process, some functions were discarded (construction, heavy transport), whereas some other functions were combined. All this had impact on change in the number of employees in 2009 as compared to 2008. In order to rationalize the work of the departments, in 2010 the Company's Board's decision was revised the Company's management structure approved in 2009. New divisions which will carry the hot water meter installation and maintenance in this structure are foreseen.

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

Table 11

No.	Education level	Company 31 12 2008	Group 31 12 2008	Company 31 12 2009	Group 31 12 2009	Company 31 12 2010	Group 31 12 2010
1	Secondary (unfinished)	23	27	13	15	10	12
2	Secondary	241	270	207	248	229	264
3	Post-secondary	105	110	86	92	93	97
4	Higher	229	247	225	246	250	269
	Total:	598	654	531	601	582	642

Average relative number of employees and average monthly salary (including taxes at the end of 2010)

Table 12

No.	Employees	Company	Group
1.1.	Average relative number of managers	3.9	5.9
1.2.	Average monthly salary of managers	7,478.3	6,344.5
2.1.	Average relative number of specialists	277.3	297.2
2.2.	Average monthly salary of specialists	2,701.8	2,663.4
3.1.	Average relative number of workers	248.1	286.7
3.2.	Average monthly salary of workers	1,977.3	1,910.5

The salaries of the Issuer's employees consist of invariable part, variable part, extra pays and bonuses paid in accordance with the provisions of the Lithuanian Labour Code and other laws. Bonuses are paid from net profit, provided the general shareholders meeting decides to allot a part of profit for the payment of bonuses to the Company's employees. Until 2010 the general shareholders meeting has not allotted any part of profit for the payment of bonuses to the Issuer's employees.

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

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

- For continuous record of service in the Company employees are granted with additional paid vacations:
  - for 5 years of service - 1 calendar day;
  - for 6 to 10 years of service - 2 calendar days;
  - for over 10 years of service - 3 calendar days;
  - for each subsequent 5 years of service - 1 calendar day;
- Record of service is treated as continuous (in which case additional paid vacation days are granted at the Company), provided the employees used to work for the Lithuanian energy system companies and were transferred to work for the Company on the basis of mutual agreement of employers, i.e. when transfer was carried out in accordance with the Lithuanian Labour Code and the Lithuanian Law on Employment Agreement in effect.
- The Company's employees have a right to receive additional paid vacation days in the following cases:
  - establishment of family relations (marriage) - 3 calendar days;
  - death of a close person (one of the parents or one of the spouse's parents, spouse, brother, sister, daughter, son or lawful foster-child) - 3 calendar days;
  - childbirth by wife - 1 calendar day;
  - marriage of the employee's daughter, son or lawful foster-child - 3 calendar days.





3. Employer's obligations:

- to ensure conditions for preventive medical examination of employees and, if necessary, for rehabilitation treatment, to provide free-of-charge services at the health centre of the Company;
- in case of death of employee, to pay allowance equal to two last month's average monthly salaries at the Company or its branch office, to provide with free-of-charge transport or to cover transportation expenses. The allowance is to be paid to the person who was responsible for the burial;
- in case of death of employee's close person (father, mother, husband or wife), to pay allowance equal to one last month's average monthly salary at the Company or its branch office, to provide with free-of-charge transport or to cover transportation expenses;
- in case of birth of one or more children, to pay allowance equal to 25% of last month's average monthly salary at the Company or its branch office for each child;
- in case of marriage, to pay allowance equal to 25% of last month's average monthly salary at the Company or its branch office;
- for employees who raise three or more children under 16 years of age, widowers (widows) or single parents who raise one or more children under 19 years of age (provided they attend secondary school) and under 21 years of age (provided they are full-time students at post-secondary or higher education institutions), and for employees who take care of other family members with heavy or medium level of disability or work capacity lower than 55% and family members who reached retirement age and in respect of whom high or average level of special needs was established in accordance with relative laws, once a year to pay allowance equal to 50% of last month's average monthly salary at the Company or its branch office as at the date, on which the request for such allowance was submitted;
- for employees who reached 50 and 60 years of age with continuous record of service at the Company more than 20 years and good performance of duties, based on the order of top manager to award with monetary gift equal to 50% of last month's average salary at the Company or its branch office;
- on the occasions of celebrating the Day of Energy Specialists in Lithuania or the Company's operation anniversaries, the employees who are honored and worthy to be praised receive a monetary gift of LTL 500;
- in all other cases when material support is required (in case of damages incurred as a result of natural disasters or other reasons that are beyond the employee's control), to pay allowance up to LTL 2,000 based on mutual agreement of authorized representatives who signed the Collective Employment Agreement;
- in case of serious illness of employee or a heavy accident, to pay allowance equal to up to 5 last month's average monthly salaries at the Company or its branch office, based on mutual agreement of authorized representatives who signed the Collective Employment Agreement.

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

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

*Amendments to the Company's Articles of Association in 2010*

During the extraordinary general meeting of shareholders held on February 2010, the Company's authorized share capital was increased and relative amendments were made to the Company's Articles of Association. The newly amended version of the Company's Articles of Association was registered with the Lithuanian Register of Legal Entities on 26 March 2010.

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





## 20. Issuer's bodies

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

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

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

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

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

The Supervisory Board approves the rules for the establishment and operation of the audit committee, and elects the members of this committee. Based on the decision of the collegiate supervisory body (the Supervisory Board) dated 31 March 2009, the rules for the establishment and operation of the audit committee of AB Kauno Energija were approved and the following audit committee members were elected: Mrs. Daiva – Birutė Ramanauskienė, Delta Tours UAB chief financier, Mrs. Loreta Miliauskienė, head of the Company's Economy and Planning Unit, Mrs. Nijolė Sakalauskienė, AB Kauno Energija senior economist of the Economy Group). On 13 April 2010 The Board of Supervisors elected a new audit committee members - Valerija Stankūnienė, Deputy Chief Accountant of AB Kauno Energija and Edita Gudišauskienė, current Kaunas City Mayor adviser, member of the Board of Supervisors of AB Kauno Energija instead of AB Kauno Energija audit committee members Loreta Miliauskienė and Nijolė Sakalauskienė. The Board of Supervisors of AB Kauno Energija stated that elected members of audit committee start their job on 14 April 2010. On 16 June 2010 a resignation of audit committee member Daiva Birutė Ramanauskienė was adopted by the decision of the Supervisory Board of AB Kauno Energija. In 2010 the Audit Committee met three times. The audit committee carries out the functions set forth in Article 52 of the Lithuanian Law on Audit. In 2009 the Audit Committee has met three times.



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:

As at 31 December 2010, the members of the Company's Supervisory Board were as follows:

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Jonas Koryzna	Supervisory Board chairman	30 July 2007	30 April 2011
Mrs. Jadžė Bartašienė	Supervisory Board member	30 July 2007	30 April 2011
Mr. Stasys Žirgulis	Supervisory Board member	30 July 2007	30 April 2011
Mr. Gediminas Žukauskas	Supervisory Board member	30 July 2007	30 April 2011
Mrs. Edita Gudžišauskienė	Supervisory Board member	28 April 2009	30 April 2011
Mr. Arvydas Padėgimas	Supervisory Board member	28 April 2009	30 April 2011
Mr. Vytautas Vasilenko	Supervisory Board member	26 October 2010	30 April 2011

Based on the decision of the extraordinary General Meeting of Shareholders held on 26 October 2010, one member of the Supervisory Board was recalled:

Full name	Job position	Beginning of the term of office	End of the term of office
Ms. Orinta Leiputė	Supervisory Board member	28 April 2009	26 October 2010



Mr. Jonas Koryzna. Doctor of Engineering. Member of Kaunas City Municipality Council. Member of City Economy and Energy Committee, Chairman of Privatisation Commission. Chairman of the Company's Supervisory Board. Vice-president of Kaunas Chamber of Commerce, Industry and Crafts, member of Kaunas Rotary Club. Mr. Koryzna has no shares of the Company. As at 31 December 2010, he had 70 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 70% of their share capital and votes.

Mrs. Jadžė Bartašienė. J. Urbšys Secondary School teacher-expert in physics, independent expert under the Ministry of Education and Science, member of the Council of Kaunas City Schools. Mrs. Bartašienė has no shares of the Company and she has no ownership interests in other companies.







Mrs. Edita Gudīšauskienė. Director of Administration of Kaunas City Municipality, Member of the Management Board of Kauno Laisvosios Ekonominės Zonos Valdymas, Chairman of Kaunas City Non-governmental Organisations Support Council, Member of the Management Board of Lampėdžių Community Centre. Mrs. Gudīšauskienė has no shares of the Company, nor any ownership interest in other companies.

Mr. Arvydas Padegimas. Member of Kaunas City Municipality Council, Member of City Economic and Energy Committee, the Standing Member of the counting of votes Commission, deontologist at Garliava PSPC UAB Makšvilė.

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



Mr. Stasys Žirgulis. Member of Kaunas City Municipality Council, Chairman of the Commission for Conception of Names and Commemoration, Member of the Committee, for Development of Culture, community and municipality, Teacher at Vilnius Art Academy, Kaunas Faculty, Member of the Lithuanian Association of Artists, Member of the Lithuanian Artist Union.

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

Mr. Gediminas Žukauskas. Member of Kaunas City Municipality Council, Chairman of the Committee of City Economy and Energy, Member of Privatisation Commission, Chief-engineer at UAB Kauno Vandenys, Chairman of Panemunė Community Center. Mr. Žukauskas has no shares of the Company, nor any ownership interest in other companies.



Mr. Vytautas Vasilenko. Member of Supervisory Board since 26 October 2010. Member of Kaunas City Municipality Council, Deputy Director of Kaunas football school "Tauras", Member of Education, Sport and Ecology Community, Member of Non-motor vehicle Commission, Member of Traffic Safety Commission.

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

Ms. Orinta Leiputė. Member of Supervisory Board till 26 October 2010, Member of Kaunas City Municipality Council, Member of the Committee for Development of Culture, community and municipality, Assistant-secretary for the member of the Lithuanian Parliament Ms. B.Vėšaitė, Assistant at the Lithuanian Academy of Physical Education, Member of the Lithuanian Society of Young Researchers, Lithuanian Union of Social Democratic Party - member of the Council and Presidium, Chairman in Kaunas division, Lithuanian Union of Social Democratic Women, Deputy Chairman, member of Kaunas Club of Women Politicians MILDA (Initiative by women to improve democracy in Lithuania); member of the Board of Society *Lietuvos Sakaliukų Sąjunga* (children and youth organisation).

Ms Leiputė 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 the members of the Supervisory Board.





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

As at 31 December 2010, the members of the Company's Management Board were as follows:

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Vytautas Mikaila	Management Board chairman	3 December 2008	30 April 2011
Mr. Ramūnas Gatautis	Management Board member	27 November 2007	30 April 2011
Mr. Algirdas Vaitiekūnas	Management Board Deputy Chairman	30 April 2004	30 April 2011
Mr. Vykintas Šuksteris	Management Board member	27 November 2007	30 April 2011
Mr. Eugenijus Ušpuris	Management Board member	27 November 2007	30 April 2011
Mr. Juozas Marcalis	Management Board member	21 December 2007	30 April 2011
Mr. Kęstutis Miškinis	Management Board member	28 April 2009	30 April 2011

Based on the decision passed during the meeting of the Company's Supervisory Board, held on 2 December 2010, the new member of the Company's Management Board Mr. Gedvydas Celiešius was elected instead of resigned member of Board Mr. Juozas Marcalis.

Mr. Vytautas Mikaila. Doctor of Engineering. MVE Group UAB, Director. Chairman of the Company's management Board since 16 December 2008. Head of the Company's Development and Analysis Division.

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

During the reporting period, remuneration amounting to LTL 52 thousand (salary) was paid to the member of the Management Board, however, no bonuses were paid, nor any assets were transferred or guarantees issued



Mr. Ramūnas Gatautis. Kaunas City Municipality Administration, Deputy Director. Lithuanian Energy Institute, Laboratory of Energy Systems Research, Doctor of Engineering. The Chairman of the Company's Management Board until 15 December 2008. Member of International Association of Energy Economists. Member of Management Board at Būsto Valda UAB and Panemunės Butų Ūkis.

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

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

Mr. Algirdas Vaitiekūnas. Kaunas City Municipality Administration, City's Economy Department, head of Energy Division. Deputy Chairman of the Management Board of the Company.

Mr. Vaitiekūnas 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. Vykintas Šuksteris. AF – Terma UAB, Director; Doctor of Engineering; member of International Association for Energy Economists; member of the Lithuanian Thermotechnical Engineer's Society; President of the Lithuanian Association of Energy Consultants.

Mr. Šuksteris 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. Eugenijus Ušpuras. Lithuanian Energy Institute, Director. Kaunas University of Technology, Thermal and Nuclear Energy Department, professor; Lithuanian Academy of Sciences, Associate Member.

Mr. Ušpuras 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. Kęstutis Miškinis. Senior specialist in Energetic branch of the Department of City property of Kaunas city municipality.

Mr. Miškinis 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. Gedvydas Celiešius. Kaunas Region Municipality. Head of Ežerėlis village. Member of Company's Board since 2 December 2010. Mr. Celiešius 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. Juozas Marcalis. Assistant of the member of the Lithuanian Parliament Mrs. B. Vėšaitė, Head of Sales and Marketing Department of UAB Pastatų priežiūros paslaugos. Mr. Marcalis was Member of Company's Board till 2 December 2010. Mr. Marcalis has no shares of the Company, nor any ownership interest in other companies.

During the reporting period, remuneration amounting to LTL 12 thousand (salary) was paid to the member of the Management Board, however, no bonuses were paid, nor any assets were transferred or guarantees issued.

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

Mr. Rimantas Bakas. General Manager of the Company since 24 November 2008, Doctor of Engineering. Member of Lithuania heating technique engineers association, Member of Board of Kaunas Regional Energy Agency, Member of Lithuanian District Heating Association Board, Member of Lithuanian Energy Institute's the Scientific Board, the chairman of Master's qualification commission in Kaunas University of Technology Thermal and Nuclear Engineering department, the expert approved by World's Energy Council the PET Committee of Lithuania. Till 9 March 2011 Member of Board of UAB Pastatų Priežiūros Paslaugos. 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 January 1999 to February 2001, Terma ir KO UAB Director (from 2000 Lithuanian-Swedish company AF – Terma UAB); from October 2001 to February 2003, Lithuanian Bioenergetics and Energy Saving Association, vice-president and executive director; from 3 January 2001 to 21 November 2008, Head of Strategy Department at the Company. He has no shares of the Company, or ownership interest in 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: Chief Accountant of the Company's branch office Kauno Energijos Paslaugos (22 June 1998); special





purpose public company Kauno Energija, Deputy Chief Financier (10 January 2000); Itvizija UAB, chief accountant (from 1998 to April 2004); Energijos Realizacijos Centras UAB, chief accountant (from January 2003 to June 2004). She holds 2,641 units of the Company's shares, which make less than 5% of the authorized share capital. She has no ownership interest in other companies.

During 2010, total remuneration estimated for the General Manager and Chief Accountant amounted to LTL 222 thousand, average amount per person – LTL 111 thousand; no other assets were transferred, no guarantees provided.

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

None.

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

None.

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

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

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

Information on compliance with the Governance Code of Companies is presented in Annex 1 to the Annual Report.

**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 OMX news publication system, which is used to report announcements all over the European Union. This information was also placed on the Issuer's website. All information is available on Vilnius Stock Exchange website at address <http://www.baltic.omxgroup.com/?id=3304>, and the Issuer's website at address: <http://www.kel.lt/lt?id=348>.

Heading of announcement	Category of announcement	Language	Time
Due to the final decision of Lithuanian Supreme Court	Other information	En, Lt	14.03.2011 - 17:22
An intermediate unaudited financial statement of 12 months of the year 2010	Interim information	En, Lt	28.02.2011 - 16:36
AB Kauno Energija 2012 - 2015 year partial investment plan and its financing sources	Notification on material event	En, Lt	25.02.2011 - 13:32
The activity result of the 12 months, 2010	Notification on material event	En, Lt	24.01.2011 - 16:12
Prognoses for activity of the AB Kauno Energija at the 2010 year	Notification on material event	En, Lt	20.01.2011 - 10:41
Information on the election of the member of Management board	Notification on material event	En, Lt	03.12.2010 - 14:31
To establish a Joint venture	Notification on material event	En, Lt	24.11.2010 - 15:46
The activity results of the III quarter, 2010	Interim information	En, Lt	29.10.2010 - 14:36





Heading of announcement	Category of announcement	Language	Time
The Decisions of the general shareholders meeting of AB Kauno Energija	Notification on material event	En, Lt	26.10.2010 - 16:09
The change of General meeting agenda of AB Kauno Energija shareholders and decisions projects	Notification on material event	En, Lt	12.10.2010 - 11:07
General meeting of AB Kauno Energija shareholders and decisions projects	Notification on material event	En, Lt	04.10.2010 - 08:54
Regarding the obligation of the Securities Commission to declare a material event	Notification on material event	En, Lt	17.08.2010 - 13:41
Intermediate information on AB Kauno Energija for the 6 months	Interim information	En, Lt	05.08.2010 - 09:02
A Letter of Intent regarding possible development of energy supply projects in Kaunas FEZ signed	Notification on material event	En, Lt	30.07.2010 - 10:15
The activity results of the per I half, 2010	Notification on material event	En, Lt	29.07.2010 - 14:06
Heat price starting 1 of July, 2010 determined	Notification on material event	En, Lt	22.06.2010 - 16:36
Financial statements with the annual report	Annual information	En, Lt	14.05.2010 - 09:29
The Decisions of the Reconvening General meeting shareholders meeting of AB Kauno Energija	Notification on material event	En, Lt	14.05.2010 - 09:01
The decisions of the general shareholders meeting and activity results of the first quarter, 2010	Interim information	En, Lt	30.04.2010 - 15:21
Reconvening General meeting of AB Kauno Energija shareholders and decisions projects	Notification on material event	En, Lt	27.04.2010 - 17:00
General meeting of AB Kauno Energija shareholders and decisions projects	Notification on material event	En, Lt	02.04.2010 - 15:38
Information about the new wording of the articles of AB Kauno Energija	Notification on material event	En, Lt	30.03.2010 - 11:12
Due to the Vilnius Commercial Arbitration Court decision	Notification on material event	En, Lt	03.03.2010-13:26
The activity result of the 12 months, 2009	Interim information	En, Lt	18.02.2010 - 13:47
The Decisions of the general shareholders meeting of AB Kauno Energija	Notification on material event	En, Lt	18.02.2010 - 09:46
General meeting of AB Kauno Energija shareholders and decisions projects	Notification on material event	En, Lt	22.01.2010 - 14:17
On heat, supplied by AB Kauno Energija, price application from the 1st February, 2010	Notification on material event.	En, Lt	22.01.2010 - 11:54

General Manager of AB Kauno Energija



Rimantas Bakas

31 March 2011

