



AKCINĖ BENDROVĖ „KAUNO ENERGIJA“

To: Lithuanian Securities Commission
Konstitucijos av.23, LT-08105 Vilnius

2008 02 24 Nr. 20-688

To: JSC Vilnius Stock Exchange of Lithuania
Konstitucijos av. 7, 15 floor., LT-08105 Vilnius

CONFIRMATION FROM RESPONSIBLE PERSONS

Following the guidelines of 22 article of the Law on Securities Market of the Republic of Lithuania and Lithuanian Securities Commission periodical and additional information preparation and presentation regulations, we a General Manager Aleksandras Sigitas Matelionis and Chief Accountant Violeta Staškūnienė JSC „Kauno energija“ approving, that according ours knowledge the JSC „Kauno energija“ interim financial reporting of the 12 months of the year 2007 prepared according to the International Financial Reporting Standards, generally accredited in European Union, satisfy actuality and correct indicate assets, liabilities, financial position and profit for time period of the enterprise.

Enclosing JSC „Kauno energija“ consolidated and company's financial statements for the 12 months of the year 2007, prepared according to the International Financial Reporting Standards.

Yours respectfully,

General Manager

Aleksandras Sigitas Matelionis

Chief Accountant

Violeta Staškūnienė

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www.ke.lt Centrinis šilumos vartotojų informacijos telefonas (8~37) 30 58 00

LR juridinių asmenų registras, Valstybės įmonės Registrų centro Kauno filialas, E. Ožėškienės g. 12, Kaunas
Atsiskaitomoji sąskaita LT607044060002866144 AB SEB Vilniaus bankas PVM kodas LT350148314

JSC „Kauno energija“

**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
FOR 12 MONTHS OF THE YEAR 2007
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 12 MONTHS, 2007

(all amounts are in LTL thousand unless otherwise stated)

Balance sheets

		Group		Company	
		31	31	31	31
	Notes	December, 2007	December, 2006	December, 2007	December, 2006
ASSETS					
Non-current assets					
Intangible assets		2.451	2.114	2.388	2.089
Property, plant and equipment					
Land and buildings		29.111	29.489	27.469	27.791
Structures and machinery		110.125	101.940	110.083	101.875
Vehicles		1.348	1.215	1.113	1.135
Equipments and tools		8.047	5.892	7.950	5.790
Other property, plant and equipment		2.016	2.406	2.016	2.406
Construction in progress and prepayments		8.224	10.122	8.224	10.122
Total property, plant and equipment		158.871	151.064	156.855	149.119
Non-current financial assets					
Investments into daughter companies	1	-	-	6.518	6.518
Non-current accounts receivable		242	1.441	242	1.441
Other financial assets		433	433	433	433
Total non-current financial assets		675	1.874	7.193	8.392
Total non-current assets		161.997	155.052	166.436	159.600
Current assets					
Inventories and prepayments					
Inventories		6.531	8.645	6.364	8.568
Prepayments		505	451	488	436
Total inventories and prepayments		7.036	9.096	6.852	9.004
Current accounts receivable	3				
Trade receivables		37.885	34.531	37.606	34.238
Other receivables		3.429	4.009	3.440	4.072
Total accounts receivable		41.314	38.540	41.046	38.310
Cash and cash equivalents	4	4.886	4.466	4.864	4.436
Total current assets		53.236	52.102	52.762	51.750
Total assets		215.233	207.154	219.198	211.350

(cont'd on the next page)

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

JSC KAUNO ENERGIJA, code 235014830, Raudondvario pl. 84, Kaunas, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 12 MONTHS, 2007

(all amounts are in LTL thousand unless otherwise stated)

		Group		Company	
		31	31	31	31
	Notes	December,	December,	December,	December,
		2007	2006	2007	2006
EQUITY AND LIABILITIES					
Equity					
Share capital	5	118.310	118.310	118.310	118.310
Legal reserve	5	11.373	3.634	11.323	3.634
Other reserve	5	163			
Retained earnings (deficit)					
Profit for the current year		(10.369)	5.907	(10.398)	9.360
Profit (loss) for the previous year		(3.692)	(1.671)		(1.671)
Total retained earnings (deficit)		(14.061)	4.236	(10.398)	7.689
Total equity		115.785	126.180	119.235	129.633
Liabilities					
Non-current liabilities					
Non-current financial borrowings	6	23.039	18.009	23.039	18.009
Lease (financial lease) liabilities	7	180	-	37	-
Deferred income tax liability		2.916	2.754	3.585	3.423
Grants (deferred income)		10.456	7.935	10.456	7.935
Total non-current liabilities		36.591	28.698	37.117	29.367
Current liabilities					
Current portion of non-current borrowings	6,7	8.772	7.692	8.726	7.692
Current financial borrowings	6	21.020	14.177	21.020	14.177
Trade payables		28.176	26.038	28.421	26.403
Advances received		753	873	753	873
Payroll-related liabilities		2.087	1.717	1.936	1.665
Taxes payable		827	948	768	876
Income tax payable		0	676	0	598
Other current liabilities		1.161	155	1.222	66
Total current liabilities		62.857	52.276	62.846	52.350
Total liabilities		99.448	80.974	99.963	81.717
Total equity and liabilities		215.233	207.154	219.198	211.350

General Manager

Aleksandras Sigitas
Matelionis

Chief Accountant

Violeta Staškūnienė

22 January, 2008

22 January, 2008

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 12 MONTHS, 2007

(all amounts are in LTL thousand unless otherwise stated)

Income statements

		Group		IV		
	Notes	IV quarter, 2007	2007	quarter, 2006	2006	2005
Operating income						
Income from sales	8	61.404	169.528	45.811	183.734	171.382
Other operating income	9	469	1.297	46	3.704	6.833
Total activity income		61.873	170.825	45.857	187.438	178.215
Operating expenses						
Fuel and heat acquired		(39121)	(112.195)	(30.722)	(112.894)	(106.464)
Salaries and social security		(7.799)	(22.938)	(7.112)	(26.017)	(22.447)
Raw materials		(728)	(2.356)	(992)	(3.407)	(2.959)
Taxes other than income tax		(984)	(3.403)	(1.108)	(4.085)	(4.162)
Electricity		(807)	(3.976)	(715)	(3.804)	(3.512)
Depreciation and amortization		(5.207)	(20.492)	(4.549)	(18.560)	(17.908)
Repairs and maintenance		(1.905)	(2.808)	(70)	(755)	(1.521)
Water		(115)	(801)	(428)	(1.069)	(479)
Change in allowance for accounts receivable	3	(9)	1.133	197	847	(206)
Change in allowance for inventories		2	8	324	324	(279)
Petrašiūnai power plant operator expenses	1	(518)	(2.193)	(487)	(967)	-
Other expenses		(2.468)	(9.319)	(3.432)	(11.413)	(8.467)
Other operating expenses	9	(270)	(1.001)	(218)	(1.198)	(6.517)
Total operating expenses		(59.929)	(180.341)	(49.312)	(182.998)	(174.921)
Profit from operations		1.944	(9.516)	(3.455)	4.440	3.294
Financial and investing activities						
Income from financial and investing activities	10	281	1.314	474	1.946	1.926
Expenses from financial and investing activities	10	(718)	(2.005)	(352)	(1.347)	2.212
Financial and investing activities, net		1.507	(691)	122	599	4.138
Profit before tax		1.507	(10.207)	(3.333)	5,039	7.432
Income tax		(162)	(162)	868	868	(1.007)
Net profit		1.345	(10.369)	(2.465)	5.907	6.425
Basic earnings per share (LTL)		0,07	(0,53)	(0,13)	0,30	0,33

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

General Manager Aleksandras Sigitas
 Chief Accountant Matelionis

Violeta Staškūnienė

22 January, 2008

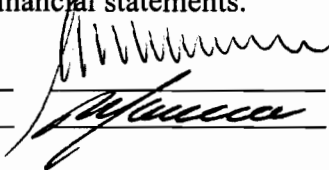
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CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 12 MONTHS, 2007

(all amounts are in LTL thousand unless otherwise stated)

		Company				
	Notes	IV quarter, 2007	2007	IV quarter, 2006	2006	2005
Operating income						
Income from sales	8	61.024	168.003	45.290	183.224	171.382
Other operating income	9	393	1.370	189	8.464	6.833
Total operating income		61.417	169.373	45.479	191.688	178.215
Operating expenses						
Fuel and heat acquired		(39.121)	(112.195)	(30.722)	(112.894)	(106.464)
Salaries and social security		(7.092)	(19.940)	(6.199)	(24.543)	(22.447)
Raw materials		(630)	(2.013)	(912)	(3.352)	(2.959)
Taxes other than income tax		(960)	(3.348)	(1.097)	(4.066)	(4.162)
Electricity		(799)	(3.957)	(717)	(3.804)	(3.512)
Depreciation and amortization		5.157	(20.341)	(4.496)	(18.497)	(17.908)
Repairs and maintenance		(1.905)	(2.805)	(72)	(755)	(1.521)
Water		(110)	(786)	(430)	(1.069)	(479)
Change in allowance for accounts receivable		(9)	1.133	197	847	(206)
Change in allowance for inventories		2	8	324	324	(279)
Maintenance of heating and hot water systems	1,12	(707)	(2.801)	(879)	(1.995)	-
Petrašiūnai power plant operator expenses	1	(518)	(2.193)	(487)	(967)	-
Other expenses		(2.262)	(8.749)	(3.148)	(10.942)	(8.467)
Other operating expenses	9	(281)	(986)	(354)	(1.491)	(6.517)
Total operating expenses		(59.549)	(178.973)	(48.992)	(183.204)	(174.921)
Profit from operations		1.868	(9.600)	(3.513)	8.484	3.294
Income from financial and investing activities	10	289	1.364	474	1.946	1.926
Expenses from financial and investing activities	10	(716)	(2.000)	(352)	(1.347)	2.212
Financial and investing activities, net		(427)	(636)	122	599	4.138
Profit before tax		1.441	(10.236)	(3.391)	9.083	7.432
Income tax		(162)	(162)	277	277	(1.007)
Net profit		1.279	(10.398)	(3.114)	9.360	6.425
Basic earnings per share (LTL)		0,06	(0,53)	(0,16)	0,47	0,33

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

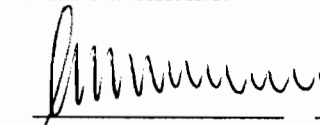

General Manager	Aleksandras Sigita		22 January, 2008
Chief Accountant	Matelionis		22 January, 2008
	Violeta Staškūniene		

Statements of change in equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings	Total
Balance as of 31 December, 2005		118.310			1.963	120.273
Net profit for the year		-	-		5.907	5.907
Reserve		-	3.634		-3.634	0
Balance as of 31 December, 2006		118.310	3.634		4.236	126.180
Transferred to the legal reserve	5	-	7.739		-7.739	-
Other reserve	5			163	-163	-
Dividends						
In profit (loss) statement not recognised profit					-25	-25
Net profit for the year		-	-		-10.369	-10.369
Balance as of 31 December, 2007		118.310	11.373	163	-14.061	115.785

Company	Notes	Share capital	Legal reserve	Retained earnings	Total
Balance as of 31 December, 2005		118.310		1.963	120.273
Reserve		-	3.634	-3.634	-
Net profit for the year		-	-	9.360	9.360
Balance as of 31 December, 2006		118.310	3.634	7.689	129.633
Transferred to legal reserve		-	7.689	-7.689	-
Net profit for the year		-	-	-10.398	-10.398
Balance as of 31 December, 2007		118.310	11.323	-10.398	119.235

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

General Manager	Aleksandras Sigitas Matelionis		22 January, 2008
Chief Accountant	Violeta Staškūnienė		22 January, 2008

Cash flow statements

	Group		Company	
	2007	2006	2007	2006
Cash flows from (to) operating activities				
Net profit	(10.369)	5.907	-10.398	9.360
Adjustments for non-cash items:	20.601	13.418	20.423	9.403
Depreciation and amortization	21.543	19.610	21.364	19.548
Change in allowance for accounts receivable	(1.133)	(847)	(1.133)	(847)
Loss (gain) from sale and write-off of property, plant and equipment and shares	(18)	(2.344)	18	(2.344)
Change in allowance for inventories	(8)	(324)	(8)	(324)
Profit tax cost (income)	162	868	162	(277)
Profit for the recalculation of prices for non-current assets	-	-	-	(4.462)
Accruals	(216)	(319)	(232)	(401)
Amortization of grants	(849)	(891)	(849)	(891)
Change in currency exchange rate	-	-	-	-
Interest expenses	1.988	1.315	1.984	1.315
Elimination of other financial and investing activity results	(1.337)	(1.914)	(1.347)	(1.914)
Changes in working capital:	2.869	8.069	2.944	8.663
(Increase) decrease in inventories	2.122	(3.433)	2.212	(3.356)
Decrease in prepayments	(54)	13	(52)	28
Decrease (increase) in trade receivables	(2.221)	7.806	(2.235)	8.099
Decrease (increase) in other receivables	580	2.014	632	1.951
(Decrease) in non-current trade payable		(71)		(71)
Increase in current trade payables and advances received	2.018	1.822	1.898	2.187
Increase (decrease) in payroll-related liabilities	154	6	39	(46)
Increase (decrease) in other liabilities	(797)	84	(706)	12
(Decrease) in other liabilities	1.067	(172)	1.156	(141)
Net cash flows from operating activities	13.100	27.394	12.969	27.426

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

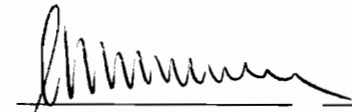

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 12 MONTHS, 2007

(all amounts are in LTL thousand unless otherwise stated)

Cash flow statements (cont'd)

	Group		Company	
	2007	2006	2007	2006
Cash flows from (to) investing activities				
(Acquisition) of tangible and intangible assets	(29.440)	(32.347)	(29.356)	(32.314)
(Acquisition) on non-current investments	-	-		(10)
Investments into daughter companies		1.761		
Proceeds from sale of tangible and intangible assets and investments	19	3.978	19	3.931
Penalty interest and fines (received)	1.300	337	1.300	1.761
Increase in cash flows from (to) non-current accounts receivable	1.199	337	1.199	299
Net cash flows (to) from investing activities	(26.922)	(26.271)	(26.838)	(26.333)
Cash flows from (to) financing activities				
Proceeds from loans	18.301	10.295	18.301	10.313
(Repayment) of loans	(5.432)	(9.604)	(5.432)	(9.622)
Interest (paid)	(1.927)	(1.649)	(1.923)	(1.649)
Financial lease (payments)	(54)		(3)	
Grants received	3.370		3.370	
Dividends	-	-	-	-
Penalty interest and fines (paid)	(16)	(32)	(16)	(32)
Net cash flows from (to) financing activities	14.242	(990)	14.297	(990)
Net (decrease) increase in cash and cash equivalents	420	133	428	103
Cash and cash equivalents at the beginning of the year	4.466	4.333	4.436	4.333
Cash and cash equivalents at the end of the year	4.886	4.466	4.864	4.436

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

General Manager	Aleksandras Sigita Matelionis		22 January, 2008
Chief Accountant	Violeta Staškūnienė		22 January, 2008

Notes to the financial statements

1 General information

JSC "Kauno energija" (hereinafter "the Company") is joint stock company registered in the Republic of Lithuania. The address of it's registered office is as follows:

Raudondvaris pl. 84,
Kaunas,
Lithuania

The Company is involved in heat, electricity generation and distribution and maintenance of the heating and hot water systems. The Company was registered on 22 August, 1997 after the reorganization of JSC "Lietuvos energija". The Company's shares are traded on the Current List of the National Stock Exchange.

JSC "Kauno energija" consists of Company's central office and subsidiary „Jurbarko šilumos tinklai“.

On 1 July, 2006 JSC „Kauno energija" on the base of Kaunas energy services department established daughter company closed-end company „Pastatų priežiūros paslaugos" (further – „daughter company“). The main activity of the daughter company is the exploitation and maintenance of building heating networks and heating consumption equipments, internal engineering networks and systems as well as building structures. From 1 July, 2006 Company is contracting closed-end company „Pastatų priežiūros paslaugos" for permanent technical maintenance of heating and hot water supply systems.

The Group consists of JSC „Kauno energija“ and it's daughter company closed-end company „Pastatų priežiūros paslaugos“ (further „Group“):

Daughter company	Registration address	Share of the stock held by the Group	Cost of investment	Profit (loss) for the reporting period	Total equity	Main activity
Closed-end company „Pastatų priežiūros paslaugos“	Savanorių pr. 347, Kaunas	100%	6.518	(59)	6.737	Maintenance of inside heating and hot water supply systems.

The authorized capital of daughter company consists of 65180 units ordinary registered 100 LTL value shares.

Operations of JSC „Kauno energija“ are regulated by the Law on Heat No IX-1565 of 20 May, 2003 of the Republic of Lithuania.

According to the Law on Heat of the Republic of Lithuania, the Company's activities are licensed and regulated by the State Prices and Energy Control Commission (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.

In 2003 the Company sold part of the assets of the subdivision Kauno Elektrinė to the closed-end company Kauno Termofikacijos Elektrinė (KTE) and committed to purchase at least 80% of the annual demand of the integrated heating network in Kaunas from this company. The contract is valid for 15 years from the sales agreement date. The contract establishes that the purchase price of heat energy from KTE will not increase during the first 5 years from the date of signing the contract. The end of the 5 years is May, 2008. From 1 January, 2008 after coming into force new Law on Heat, heat energy price bought from KTE will be determined following the rules of this law.

On 8 June, 2006 JSC “Kauno energija” signed the agreement with closed-end company “Energijos sistemų servisas” regarding the operation of Petrašiūnai power plant and it's assets located at Jėgainės st. 12, Kaunas. The contract is valid for a period of three years. Also on 22 June, 2006 the Company signed a lease agreement with closed-end company Kauno termofikacijos elektrinė regarding the equipment used in production of heating energy operated by closed-end company “Energijos sistemų servisas”. The contract is valid for a period of three years.

The Company's generation capacity includes a power plant in Petrašiūnai, 3 district boiler-houses in Kaunas integrated network, 8 regional boiler-houses in Kaunas and Marijampolė regions, 14 isolated network and 50 local gas burning boiler-houses.

The Company's total heat generation capacity is 538 MW, electricity generation capacity is 8,75 MW. Respectively, out of which 265,8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. Total Company's power generation capacity is 546,75 MW.

In the year 2007, the average number of employees at the Group was 710 (885 employees in 2006). At the same period the average number of employees at the Company was 624 (780 employees in 2006).

Aiming to centralize the activity of the Company, Company announced the open competition for the geographically distant in Marijampole region located and to Paliai boiler house allocated long term asset sale competition with the condition that the buyer will assure heat supply for the Igliauka. This asset after the end of 2007/2008 heating season will be sold to Marijampole municipality.

State prices and energy control commission at 12 July meeting obliged Company to look after the given for confirmation from 1 August, 2007 heat prices, which were confirmed by the Kaunas city municipality council on 21 September, 2007 by determining that they will come into force from 1 January, 2008. The Company made clear prices (14.67 ct/kWh) and Kaunas city municipality council determined them on 19 July, 2007. On 25 October, 2007 in the meeting of Kaunas city municipality council new prices were confirmed from 1 December, 2007.

2.1. Financial accounting form

These financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Adoption of new and/or changed IFRSs and IFRIC interpretations

- IAS19 Amendment-Employee Benefits
- IAS 21 Amendment-The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments-Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group and the Company.

2.2. Measurement and presentation currency

The amounts shown in these financial statements are presented in the local currency of the Republic of Lithuania, litas (LTL).

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

3. Receivables

During the year 2007 the Group and Company recovered LTL 1.133 thousand of bad debts which were written off in the previous periods. By this amount increased the profit of the company from the typical activity.

4. Cash and cash equivalents

	Group		Company	
	2007.12.31	2006.12.31	2007.12.31	2006.12.31
Cash at bank	11472	1.090	1.450	1.060
Cash on hand	13	17	13	17
Cash in transit	3.401	3.359	3.401	3.359
	<u>4.886</u>	<u>4.466</u>	<u>4.864</u>	<u>4.436</u>

The Group's and Company's accounts in LTL, which balance on 31 December, 2007 amounting to LTL 1.450 thousand are pledged as collateral to for the loans (6 note).

5. EquityAuthorized capital

On 31 December, 2007 and 31 December, 2006 the shareholders of the Company were:

	The number of shares (units)	Ownership portion (percent)
Kaunas city municipality administration	16.954.892	85,99
Kauno district municipality administration	1.606.168	8,14
Jurbarkas district municipality administration	443.810	2,25
Other shareholders	713.512	3,62
	<u>19.718.382</u>	<u>100,00</u>

All the shares which nominal value is LTL 6 are ordinary registered shares and on 31 December, 2007 and 31 December, 2006 were fully repayed. The authorized capital in 2007 and 2006 didn't changed and amounts LTL 118310 thousand. In 2007 and 2006 the Company hasn't it's own shares.

The authorized capital of daughter company consists of 65180 units ordinary registered 100 LTL value shares.

Legal reserve

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. On 28 April, 2006 based on the decision of the Company's shareholders LTL 3.634 thousand was transferred to the legal reserve. On 14 May, 2007 based on the decision of the Company's shareholders LTL 7.689 thousand was transferred to the legal reserve.

On 14 March, 2007 based on the decision of the all shares owner JSC „Kauno energija“ LTL 50 thousand of daughter company's profit was transferred to the legal reserve.

Other reserve

On 14 March, 2007 by the decision of all shares owner JSC „Kauno energija“ LTL 163 thousand of daughter company's profit was transferred to the reserve for investments.

6. Financial debts

On 1 August, 2005 the Company signed a long-term loan agreement with JSC bank “Hansabankas” for the amount of LTL 5.000 thousand. The maturity date of the last portion of the loan is 1 August 2012. As of 31 December, 2007 the outstanding balance of the loan amounted to LTL 3.753 thousand (as of 31 December, 2006 – LTL 4.584 thousand), of which LTL 832 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company.

On 23 August, 2005 the Company signed a long-term loan agreement with JSC SEB Vilniaus bankas for the amount of LTL 30.300 thousand (EUR 8.776 thousand). The maturity date of the last portion of the loan is 31 December, 2009. As of 31 December, 2007 the outstanding balance of the loan amounted to LTL 17.481 thousand (EUR 5.063 thousand) (As of 31 December, 2006 - LTL 20.581 thousand (EUR 5.961 thousand)), of which LTL 5.180 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company.

On 1 December, 2006 the Company signed a long-term agreement with Nordea Bank Finland Plc. Lithuanian branch for the amount of LTL 2.090 thousand. By the agreement of 18 April, 2007 the limit of credit increased up to LTL 6.090 thousand. The maturity date of the last portion of the loan is 31 December, 2015. As of 31 December, 2007 the outstanding balance of the loan amounted to LTL 3.377 thousand (As of 31 December, 2006 – LTL 536 thousand).

On 21 December, 2006 the Company signed a long-term agreement with JSC SEB Vilniaus Bankas for the amount of LTL 7.108 thousand (EUR 2.059 thousand). The maturity date of the last portion of the loan is 30 November, 2016. As of 31 December, 2007 the outstanding balance of the loan amounted to LTL 5.314 thousand (EUR 1.539 thousand). (As of 31 December, 2006 the Company didn't utilize this loan).

On 20 April, 2007 the Company signed overdraft agreement with JSC Sampo bankas for the amount of LTL 1.010 thousand. The maturity date – 20 October, 2009. As of 31 December, 2007 the balance of the used overdraft is LTL 987 thousand.

As of 31 December, 2007 the balance of the used overdraft from JSC DnB NORD bank Lithuania was LTL 14.520 thousand (31 December, 2006 – LTL 9.760 thousand). The maturity date of overdraft is 31 May, 2008.

On 31 December, 2007 the Company's balance of used credit line from JSC SEB Vilniaus bankas with the maturity of 19 July, 2008 was LTL 6.500 thousand.

As of 14 November, 2007 the Company signed the agreement with JSC bank DNB NORD Lithuania for the amount of LTL 1.989 thousand (EUR 576 thousand). The maturity date of the last portion of the loan is 31 December, 2016. As of 31 December, 2007 the outstanding balance of the loan amounted to LTL 815 thousand (EUR 236 thousand). (As of 31 December, 2006 the Company didn't utilize this loan).

At the end of the period the balance of borrowings in national and foreign currencies are as follows:

Currency	Group		Company	
	2007.12.31	2006.12.31	2007.12.31	2006.12.31
EUR	22.795	20.581	22.795	20.581
LTL	29.952	19.297	29.952	19.297
	<u>52.747</u>	<u>39.878</u>	<u>52.747</u>	<u>39.878</u>

On 31 December, 2007 the property, plant and equipment of the Group and Company, which balance value was LTL 79.042 thousand (As of 31 December, 2006 – LTL 64.017 thousand), were pledged to the banks as collateral for the loans.

According to the signed financial debts agreements for the debts payment assurance the cash in Company's accounts were pledged (4 note).

7. Lease (financial lease)

On 28 June, 2007 the daughter company of the Group has signed the lease agreement for the amount EUR 46 thousand with JSC Hansa lizingas Ltd. for the acquisition of long term asset. The portion of the amount LTL 46 thousand are shown in the Groups financial statements non current loans and current year lease clause.

On 26 November, 2007 Company has signed lease agreement for the amount of EUR 19 thousand with JSC Hansa lizingas Ltd. for the acquisition of long term asset. The portion of the amount LTL 38 thousand are shown in the Groups financial statements non current loans and current year lease clause.

8. Sales income

The Group's and the Company's activities are heat energy supply, maintenance of heating and hot water supply systems; electricity production and other activities These activities are inter-related, consequently for management purposes the Group's and the Company's activities are organized as one main segment – heat energy supply. The Company's sales by activities are stated below:

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(all amounts are in LTL thousand unless otherwise stated)

Sales income	Group		Company	
	2007	2006	2007	2006
Heat energy	162.017	166.172	162.017	166.172
Maintenance of buildings heating and hot water supply systems	2.070	7.414	845	6.893
Electricity energy	2.694	2.005	2.694	2.005
Revenue from sale of emission rights	15	8.154	15	8.154
Constant technical supervision	2.732		2.432	
	169.528	183.745	168.003	183.224

9. Other operating income (costs) – net result

	Group		Company	
	2007	2006	2007	2006
Other operating income				
Provided services	1.118	897	1.191	1.161
Recalculation of asset transferred to daughter company	-	-	-	4.462
Materials sold	165	2.719	165	2.753
Other	14	88	14	88
	1.297	3.704	1.370	8.464
Other operating costs				
The cost of provided services	(873)	(627)	(858)	(891)
Cost of materials sold	(108)	(205)	(108)	(252)
Other	(20)	(367)	(20)	(348)
	(1.001)	(1.199)	(986)	(1.491)
	296	2.505	384	6.973

10. Financial and investment activity income (costs) - net result

	Group		Company	
	2007	2006	2007	2006
Income from financial and investment activities				
Penalty interest and fines	1.301	1.761	1.301	1.761
Interest income	13	8	13	8
Dividends			50	
Other financial income		177		177
	1.314	1.946	1.364	1.946
Expenses of financial and investment activities				
Penalty interest and fines	(16)	(32)	(16)	(32)
Interest expenses	(1.989)	(1.315)	(1.984)	(1.315)
	(2.005)	(1.347)	(2.000)	(1.347)
Net result	(691)	599	(636)	599

11. Financial assets and liabilities and risk management

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 and quick ratios as of 31 December, 2007 were 0,85 and 0,74 (1,00 and 0,83 as of 31 December, 2006). The Company's liquidity and quick ratios as of 31 December, 2007 were 0,84 and 0,74 respectively (0,99 and 0,82 as of 31 December, 2006).

12. 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 2007 and 2006 the Group and Company had no significant transactions with the other companies owned by municipality of Kaunas city except for the purchases or sales of the utility services. The services provided to the companies owned by the municipality of Kaunas city were executed at market prices.

On 31 December, 2007 and 31 December, 2006 the related party of the Company was closed-end company "Pastatų priežiūros paslaugos".

In the year 2007 Company's transactions with the related parties and the at the end of the year were the follows:

2007	Purchases	Sales	Receivables	Payables
Closed-end company "Pastatų priežiūros paslaugos"	2.955	310	63	299

In 2006 Company's transactions with the related parties and the balances at the end of the year were the follows:

2006	Purchases	Sales	Receivables	Payables
Closed-end company "Pastatų priežiūros paslaugos"	2.042	358	78	447

Transactions between related parties are executed at market prices.

JSC KAUNO ENERGIJA, code 235014830, Raudondvario pl. 84, Kaunas, Lithuania

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(all amounts are in LTL thousand unless otherwise stated)

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL 778 thousand and LTL 390 thousand, respectively (Company's LTL 520 thousand and LTL 419 thousand in 2006). The management of the Company did not received any loans, guarantees; no other payments or property transfers were made or accrued.