AB KAUNO ENERGIJA

SET OF CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS AS
ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH CONSOLIDATED ANNUAL REPORT
AND INDEPENDENT AUDITOR'S REPORT

Translation note

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

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PRICEWATERHOUSECOOPERS

Basis for qualified opinion – scope limitation

The balance of property plant and equipment of the Group and the Company totaling LTL305 mln and LTL303 mln respectively as of 31 December 2009 includes assets with a carrying value of LTL135 mln received as a contribution in kind from one of the Company's shareholders during the year then ended. As discussed in the Note 2.22 to the accompanying financial statements the market value of these assets estimated upon their transfer to the Company by local independent qualified valuers using the depreciated replacement cost method was not subject to adequate profitability test as required by International Valuation Standards and, therefore, may not be a reliable estimate of their fair value. Following the provisions of IAS 16 'Property, plant and equipment", the cost of property, plant and equipment acquired in exchange for non-monetary assets should be measured at fair value. In the absence of reliable information about the fair value of these assets we were not in a position to assess the appropriateness of their carrying value of LTL135 mln as at 31 December 2009 by other audit procedures.

Qualified Opinion

In our opinion, except for the possible effect of the matter referred to in the *Basis for qualified opinion – scope limitation* paragraph, the financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2009 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Consolidated Annual Report for the year ended 31 December 2009 set out on pages 46 - 106 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2009.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Jurgita Kirvaitienė
Auditor's Certificate No.000447

Vilnius, Republic of Lithuania
1 April 2010

PRICEWATERHOUSECOOPERS

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Translation note

Our 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 our report takes precedence over the English version.

Independent Auditor's Report

To the Shareholders of Kauno energija AB

Report on the Financial Statements

We have audited the accompanying stand alone and consolidated financial statements (the 'financial statements') of Kauno Energija AB (the 'Company') and its consolidated subsidiary (together the 'Group') set out on pages 5 - 45 which comprise the stand alone and consolidated balance sheets as at 31 December 2009 and the stand alone and consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the *Basis for qualified opinion – scope limitation paragraph,* we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Balance Sheets

	Notes	Group As of 31 December 2009	Group As of 31 December 2008	Company As of 31 December 2009	Company As of 31 December 2008
ASSETS					
Non-current assets					
Intangible assets	3	1,242	1,783	1,222	1,683
Property, plant and equipment	4				
Land and buildings		29,539	30,692	28,012	29,108
Structures and machinery	1	251,902	117,555	251,873	117,525
Vehicles		652	1,109	526	937
Equipment and tools		6,475	7,062	6,404	6,966
Construction in progress and prepayments		16,134	8,681	16,134	8,681
Total property, plant and equipment		304,702	165,099	302,949	163,217
Deferred tax asset	22	-	88	-	-
Non-current financial assets					
Investments into subsidiaries	1	-	-	6,053	6,053
Non-current accounts receivable	5	61	65	109	65
Other financial assets	6	433	433	433	433
Total non-current financial assets		494	498	6,595	6,551
Total non-current assets		**306,438**	**167,468**	**310,766**	**171,451**
Current assets					
Inventories and prepayments					
Inventories	7	5,372	5,581	5,226	5,541
Prepayments		616	511	766	499
Total inventories and prepayments		5,988	6,092	5,992	6,040
Current accounts receivable	8				
Trade receivables		59,828	54,797	59,513	55,032
Other receivables		4,361	8,547	4,647	8,655
Total accounts receivable		64,189	63,344	64,160	63,687
Cash and cash equivalents	9	3,131	3,616	3,094	3,604
Total current assets		**73,308**	**73,052**	**73,246**	**73,331**
Total assets		**379,746**	**240,520**	**384,012**	**244,782**

(cont'd on the next page)

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

Balance Sheets (cont'd)

	Notes	Group As of 31 December 2009	Group As of 31 December 2008	Company As of 31 December 2009	Company As of 31 December 2008
EQUITY AND LIABILITIES					
Equity					
Share capital	1	255,710	119,510	255,710	119,510
Legal reserve	10	233	3,041	-	2,808
Other reserve		-	-	-	-
Retained earnings (deficit)					
Total comprehensive income (accumulated loss) for the current year		6,404	(4,234)	6,928	(4,343)
Total comprehensive (accumulated loss) for the previous years		(6,465)	(5,039)	(2,883)	(1,348)
Total retained earnings (deficit)		(61)	(9,273)	4,045	(5,691)
Total equity		**255,882**	**113,278**	**259,755**	**116,627**
Liabilities					
Non-current liabilities					
Non-current borrowings	11	37,198	33,921	37,198	33,921
Financial lease obligations	12	44	95	-	-
Deferred tax liability		2,030	-	2,699	805
Grants (deferred income)	13	11,832	10,253	11,832	10,253
Employee benefit liability	14	1,820	1,612	1,820	1,612
Other non-current liabilities		735	824	735	824
Total non-current liabilities		**53,659**	**46,705**	**54,284**	**47,415**
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12	12,935	8,834	12,884	8,785
Current borrowings	11	9,663	15,720	9,663	15,720
Trade payables	15	41,502	50,929	41,529	51,361
Payroll-related liabilities		1,812	2,054	1,660	1,933
Advances received		1,216	932	1,216	920
Taxes payable		1,316	775	1,259	727
Derivative financial instruments	16	787	567	787	567
Current portion of employee benefit liability	14	656	408	656	408
Other current liabilities		318	318	319	319
Total current liabilities		**70,205**	**80,537**	**69,973**	**80,740**
Total liabilities		**123,864**	**127,242**	**124,257**	**128,155**
Total equity and liabilities		**379,746**	**240,520**	**384,012**	**244,782**

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

General Manager	Rimantas Bakas		31 March 2010
Chief Accountant	Violeta Stankūnienė		31 March 2010

Statements of Comprehensive Income

		Group		Company	
	Notes	2009	2008	2009	2008
Operating income					
Sales income	17	280,411	205,974	279,548	205,233
Other operating income	19	1,114	1,337	1,164	1,322
Total operating income		**281,525**	**207,311**	**280,712**	**206,555**
Operating expenses					
Fuel and heat acquired		(197,698)	(137,604)	(197,698)	(137,604)
Salaries and social security		(23,236)	(24,999)	(21,418)	(22,396)
Materials		(1,758)	(2,403)	(1,507)	(1,991)
Taxes other than income tax		(4,238)	(3,462)	(4,177)	(3,402)
Electricity		(2,558)	(2,891)	(2,539)	(2,863)
Depreciation and amortisation	3,4	(16,688)	(18,982)	(16,510)	(18,784)
Repairs and maintenance		(6,351)	(5,160)	(6,619)	(5,181)
Water		(692)	(517)	(686)	(502)
Write-offs and change in allowance for accounts receivable	8	(6,524)	1	(6,524)	1
Change in allowance for inventories	7	433	181	433	181
Maintenance of heating systems		-	-	(1,141)	(2,485)
Petrašiūnai power plant operator expenses	1	(1,925)	(2,184)	(1,925)	(2,184)
Other expenses	18	(8,908)	(10,760)	(8,708)	(10,248)
Other activities expenses	19	(825)	(1,363)	(840)	(1,357)
Total operating expenses		**(270,968)**	**(210,143)**	**(269,859)**	**(208,815)**
Operating profit (loss)		**10,557**	**(2,832)**	**10,853**	**(2,260)**
Finance income	20	1,576	1,281	1,576	1,281
Finance costs	21	(3,611)	(3,343)	(3,606)	(3,800)
Finance cost, net		**(2,035)**	**(2,062)**	**(2,030)**	**(2,519)**
Profit (loss) before income tax		**8,522**	**(4,894)**	**8,823**	**(4,779)**
Income tax	22	(2,118)	660	(1,895)	436
Net profit (loss) for the year		**6,404**	**(4,234)**	**6,928**	**(4,343)**
Other comprehensive income (expenses)		-	-	-	-
Total comprehensive income (loss)/ Profit (loss) attributable to the shareholders		**6,404**	**(4,234)**	**6,928**	**(4,343)**
Basic and diluted earnings (loss) per share (litas)	23	0.22	(0.21)		

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

General Manager	Rimantas Bakas		31 March 2010
Chief Accountant	Violeta Stankūnienė		31 March 2010

Statements of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2007		**118,310**	**11,373**	**163**	**(13,534)**	**116,312**
Total comprehensive loss		-	-	-	(4,234)	(4,234)
Transactions with owners						
Transferred from reserves	10	-	(8,332)	(163)	8,495	-
Increase in share capital	1	1,200	-	-	-	1,200
Balance as of 31 December 2008		**119,510**	**3,041**	**-**	**(9,273)**	**113,278**
Total comprehensive income		-	-	-	6,404	6,404
Transactions with owners						
Transferred from reserves	10	-	(2,808)	-	2,808	-
Increase in share capital	1	136,200	-	-	-	136,200
Balance as of 31 December 2009		**255,710**	**233**	**-**	**(61)**	**255,882**

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2007		**118,310**	**11,323**	**-**	**(9,863)**	**119,770**
Total comprehensive loss		-	-	-	(4,343)	(4,343)
Transactions with owners						
Transferred from reserves	10	-	(8,515)	-	8,515	-
Increase in share capital	1	1,200	-	-	-	1,200
Balance as of 31 December 2008		**119,510**	**2,808**	**-**	**(5,691)**	**116,627**
Total comprehensive income		-	-	-	6,928	6,928
Transactions with owners						
Transferred from reserves	10	-	(2,808)	-	2,808	-
Increase in share capital	1	136,200	-	-	-	136,200
Balance as of 31 December 2009		**255,710**	**-**	**-**	**4,045**	**259,755**

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

General Manager	Rimantas Bakas		31 March 2010
Chief Accountant	Violeta Stankūnienė		31 March 2010

Statements of Cash Flows

	Group		Company	
	2009	2008	2009	2008
Cash flows from (to) operating activities				
Net profit (loss) for the year	**6,404**	**(4,234)**	**6,928**	**(4,343)**
Adjustments for non-cash items:				
Depreciation and amortisation	17,629	20,278	17,452	20,000
Write-offs and change in allowance for accounts receivable	6,524	(1)	6,524	(1)
Loss from sale and write-off of property, plant and equipment	12	313	(52)	318
Change in allowance for inventories	(443)	(181)	(443)	(181)
Income tax (income)	2,118	(660)	1,894	(436)
Accruals	-	(23)	-	(42)
Employee benefit liability	208	220	208	220
(Amortisation) of grants	(630)	(1,139)	(630)	(1,139)
Derivative financial instruments	220	567	220	567
Impairment of investment in subsidiary	-	-	-	465
Interest expenses	3,269	2,772	3,264	2,764
Elimination of other financial and investing activity results	(1,454)	(1,278)	(1,454)	(1,277)
	27,453	**20,868**	**26,983**	**21,258**
Changes in working capital:				
Decrease in inventories	652	1,131	758	1004
(Increase) in prepayments	(105)	(48)	(267)	(53)
(Increase) in trade receivables	(11,150)	(16,726)	(10,600)	(17,239)
(Increase) decrease in other receivables	3,781	(4,583)	3,603	(4,674)
Increase in other non-current liabilities	-	-	-	-
Increase in current trade payables and advances received	(9,143)	22,927	(9,536)	23,104
Increase in payroll-related liabilities	(242)	(10)	(273)	39
(Decrease) in other liabilities to budget	541	(219)	532	(209)
Increase in other current liabilities	169	35	168	35
Changes in working capital:	**(15,497)**	**2,507**	**(15,615)**	**2,007**
Net cash flows from operating activities	**18,360**	**19,141**	**18,296**	**18,922**

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

Statements of Cash Flows (cont'd)

	Group		Company	
	2009	2008	2009	2008
Cash flows from investing activities				
(Acquisition) of tangible and intangible assets	(18,431)	(25,426)	(18,425)	(25,279)
Proceeds from sale of tangible assets	137	203	164	232
Penalty interest and fines received	1,571	1,230	1,571	1,230
Increase in cash flows from non-current accounts receivable	4	52	(44)	52
Interest received	4	51	4	51
Net cash flows from investing activities	**(16,715)**	**(23,890)**	**(16,730)**	**(23,714)**
Cash flows from financing activities				
Proceeds from loans	19,855	18,887	19,855	18,887
(Repayment) of loans	(18,499)	(13,245)	(18,499)	(13,245)
Interest (paid)	(3,279)	(2,675)	(3,274)	(2,669)
Financial lease (payments)	(86)	(84)	(37)	(37)
Penalty interest and fines (paid)	(121)	(4)	(121)	(4)
Proceeds from capital issue	-	600	-	600
Net cash flows from financing activities	**(2,130)**	**3,479**	**(2,076)**	**3,532**
Net (decrease) increase in cash and cash equivalents	**(485)**	**(1,270)**	**(510)**	**(1,260)**
Cash and cash equivalents at the beginning of the year	**3,616**	**4,886**	**3,604**	**4,864**
Cash and cash equivalents at the end of the year	**3,131**	**3,616**	**3,094**	**3,604**

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

General Manager	Rimantas Bakas		31 March 2010
Chief Accountant	Violeta Staškūnienė		31 March 2010

Notes to the financial statements

1 General information

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

Raudondvario Rd. 84,
Kaunas,
Lithuania.

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

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

As of 31 December 2009 and 2008 the shareholders of the Company were as follows:

	As of 31 December 2009		As of 31 December 2008	
	Number of shares owned	Percentage of ownership	Number of shares owned	Percentage of ownership
Kaunas city municipality	39,654,892	93.05	16,954,892	85.12
Kaunas district municipality	1,606,168	3.77	1,606,168	8.07
Jurbarkas district municipality council	643,810	1.51	643,810	3.23
Other minor shareholders	713,512	1.67	713,512	3.58
	42,618,382	100.00	19,918,382	100.00

All the shares with a par value of LTL 6 each are ordinary shares. The Company did not hold its own shares in 2009 and 2008.

On 26 June 2008 in the Company's shareholders meeting it was decided to increase the share capital by issuing 200,000 ordinary shares with the par value LTL 6 each. Priority right to acquire issued shares was granted to Jurbarkas district municipality council. The issue price of shares is equal to their nominal value. 100,000 from 200,000 shares were not paid as of 31 December 2008.

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

All shares were fully paid as of 31 December 2009.

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

The Group consists of AB Kauno Energija and subsidiary UAB Pastatų Priežiūros Paslaugos (hereinafter the Group):

Company	Registration address	Share held by the Group	Cost of investment	Loss for the reporting period	Total equity	Main activities
UAB Pastatų Priežiūros Paslaugos	Savanoriai Ave. 347, Kaunas	100 %	6,518	(318)	5,735	Maintenance of heating systems

As of 31 December 2009 accumulated impairment loss on investment in UAB Pastatų Priežiūros Paslaugos amounted to LTL 465 thousand (31 December 2008: LTL 465 thousand) in the Company's financial statements.

1 General information (cont'd)

Operations of AB Kauno Energija are regulated by the Heating Law No. IX-1565 of 20 May 2003 of the Republic of Lithuania. Starting 1 January 2008, the Law amending the Heating Law No. X-1329 of 20 November 2007 of the Republic of Lithuania came in to force.

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

The Company's generation capacity includes a power plant in Petrašiūnai, 3 district boiler-houses in Kaunas integrated network, 7 regional boiler-houses in Kaunas region, 14 isolated networks and 44 local gas burning boiler-houses in Kaunas.

Total heat and electricity generation capacity is 503.0 MW and 8.75 MW, respectively, out of which 254.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. The total Company's power generation capacity is 511.75 MW.

In 2003 the Company sold part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter KTE) and committed to purchase at least 80 % of the annual demand of the integrated heating network in Kaunas from this company. The contract is valid for 15 years from the sales agreement date. The contract established that the purchase price of heat energy from KTE would not increase during the first 5 years from the date of signing the contract. New heat sale price for KTE and the Company was approved by the Commission and became effective starting 1 December 2008. As described in Note 25, the Company participates as a third party in administrative litigation between KTE and the Commission.

On 8 June 2006 AB Kauno Energija signed the agreement with UAB Energijos Sistemų Servisas regarding the operation of Petrašiūnai power plant and its assets located at Jėgainės Str. 12, Kaunas. The contract is valid for a period of three years. Starting from 4 July 2006, UAB Energijos Sistemų Servisas started to provide operation services of Petrašiūnai power plant. A new contract valid until 4 August 2010 for a purchase of this service was signed with UAB Energijos Sistemų Servisas on 3 July 2009. On 22 June 2006 the Company signed a lease agreement with UAB Kauno Termofikacijos Elektrinė regarding the equipment used in production of heating energy operated by UAB Energijos Sistemų Servisas. The contract is valid for a period of three years. On 2 July 2009 a new lease agreement was signed which is valid until 3 August 2010.

In order to make the Company's operations more efficient and reduce management and production costs, with effect from 1 August 2009 the Company's management structure was changed by separating from the Company some structural units that are related to the production or provision of non-principal products or services.

In 2009 the average number of employees at the Group was 629 (663 employees in 2008). In 2009 the average number of employees at the Company was 569 (609 employees in 2008).

2. Accounting principles

2.1. Basis of preparation

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets that have been measured at fair value. The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter EU).

Adoption of new and/or changed IFRSs and IFRIC interpretations

(a) Relevant new or amended standards and interpretations effective in 2009, adopted by the Group and the Company

IAS 1 (Revised), Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The revised standard prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group and the Company applies IAS 1 (Revised) from 1 January 2009. The revised standard impacted the presentation of the Group's and the Company's financial statements but it had no impact on the recognition or measurement of specific transactions and balances.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The new disclosures are made in these financial statements.

IFRS 8, 'Operating segments' (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This amendment does not have an impact on the Group's and the Company's financial statements, since the Group and the Company operates in one operating segment.

IAS 23 (Revised) 'Borrowing Costs', including amendment published by IASB in May 2008 as part of annual improvement project (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The Group and the Company expensed interest as incurred during prior periods. Change in accounting policy had no material impact on earnings per share calculations as the Group and the Company has no qualifying assets.

(b) New and amended standards and interpretations effective in 2009 but not relevant to the Group and the Company

The following new and amended standards and interpretations as adopted by EU are mandatory for accounting periods beginning on or after 1 January 2009 but are not relevant to the Group's and the Company's operations:

2. Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions.

IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements'(effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor.

On the 23 January 2009, the EU endorsed the Improvements to IFRSs standard published in May 2008 which amends 20 existing standards, basis of conclusions and guidance. These improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes. Most of these changes are effective for periods beginning on or after 1 January 2009.

IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's and the Company's operations, because neither of them does not operate any loyalty programmes.

IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (IFRIC 11 as adopted by the EU is effective for annual periods beginning on or after 1 March 2008, early adoption permitted). The interpretation contains guidelines on the following issues: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments.

IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14 as adopted by the EU is effective for annual periods beginning on or after 31 December 2008, early adoption permitted). The interpretation contains guidance on when refunds or reductions in future contributions may be regarded as available for the purposes of the asset ceiling test in IAS 19, Employee Benefits.

(c) Standards and amendments to existing standards that are not yet effective, endorsed by EU and have not been early adopted by the Group and the Company

The following standards and amendments to existing standards have been published and are mandatory for the Group's and the Company's accounting periods beginning on or after 1 January 2010 or later periods, but the Group and the Company has not early adopted them:

IFRIC 12, Service Concession Arrangements (IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009, early adoption permitted). The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements. This interpretation should not have an impact on the Group's and the Company's financial statements.

2. Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

IFRS 3 'Business Combinations' (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The standard should not be applicable to the Group and the Company.

IFRIC 15 'Agreements for the Construction of Real Estate' (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 should not be applicable to the Group and the Company.

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, with early adoption permitted). IFRIC 16 should not be applicable to the Group and the Company.

IAS 27 'Consolidated and Separate Financial Statements' (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. This standard should not have an impact on the Group's and the Company's financial statements.

Eligible Hedged Items—Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The standard should not be applicable to the Group and the Company.

IFRIC 17 'Distribution of Non-Cash Assets to Owners' (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 should not be applicable to the Group and the Company.

IFRS 1 'First-time Adoption of International Financial Reporting Standards' (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The standard should not be applicable to the Group and the Company.

IFRIC 18 'Transfers of Assets from Customers' (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 should not be applicable to the Gorup and the Company.

2. Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 19 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, with early adoption permitted). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. These amendments do not have an impact on the Group's and the Company's financial statements.

Classification of Rights Issues – Amendment to IAS 32 'Financial Instruments: Presentation' (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. This amendment does not have an impact on the Group's and the Company's financial statements.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. These amendments will not have any impact on the Group's and the Company's financial statements.

(d) Standards and amendments to existing standards that are not yet effective and not endorsed by EU

The following standards and amendments to existing standards are not yet endorsed by European Union; the Group and the Company intends to evaluate their possible effect on the financial statement after their endorsement by EU:

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010, not yeat adopted by the EU).

Additional Exemptions for First-time Adopters - Amendments to IFRS 1 'First-time Adoption of IFRS' (effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU).

IAS 24 'Related Party Disclosures' (amended November 2009, effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU).

IFRS 9 'Financial Instruments' (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted; not yet adopted by the EU).

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU).

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU).

Improvements to International Financial Reporting Standards, issued in April 2009 (amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU).

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU).

2. Accounting principles (cont'd)

2.2. Measurement and presentation currency

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

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

2.3. Principles of consolidation and business combinations

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

Subsidiaries acquired or sold during a year are included into the financial statements from the date when control is transferred to the Group until the date that control ceases. Inter-company balances and transactions, including unrealised profits and losses, are eliminated on consolidation.

Subsidiary is the company which is directly or indirectly controlled by the parent company. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50 % of the voting rights of a company's share capital or otherwise has power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated statement of comprehensive income.

Business combinations
The purchase method of accounting is used for acquired businesses. The Company accounts for the acquired identifiable assets and liabilities of another company at their fair value at acquisition date. Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

The goodwill is stated at cost, less impairment losses in the financial statements and it is presented under the intangible assets caption in the consolidated financial statements Negative goodwill is recognised as income in the profit or loss for the reporting period.

The goodwill is not amortised, however the goodwill is tested for impairment annually, and impairment loss is recognised as expenses for the period, when occurred. The impairment of goodwill in future periods is not reversed.

Investments in subsidiaries
In separate financial statements of the Company investments into subsidiaries and associated companies are accounted for applying the cost method less impairment losses.

2.4. Intangible assets

Intangible assets are initially measured at cost. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation (except for goodwill which is not amortised) and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives.

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

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

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

2. Accounting principles (cont'd)

2.5. Accounting for emission rights

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

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

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

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

2.6. Property, plant and equipment

Property, plant and equipment of the Group and the Company are stated at cost less accumulated depreciation and impairment losses.

When assets are sold or retired, their cost, accumulated depreciation and impairment are eliminated from the accounting records, and any gain or loss resulting from their disposal is included in the profit or loss for the year.

The initial cost of property, plant and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repair and maintenance costs, are normally charged to the profit or loss in the period the costs are incurred.

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

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

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items in property, plant and equipment. Depreciation periods were revised as of 1 September 2008, as further described in Note 2.22.

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

2. Accounting principles (cont'd)

2.7. Financial instruments

According to IAS 39 "Financial Instruments: Recognition and Measurement" financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets or financial liabilities designated at fair value through profit or loss
The category 'financial assets at fair value through profit or loss' includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are derivatives or are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the profit (loss) for the period.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Company have the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit (loss) for the period when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit (loss) for the period when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the profit (loss) for the period. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such technique includes using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

2.8. Derivative financial instruments

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

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

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

2.9. Inventories

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. Unrealisable inventory is written off.

2. Accounting principles (cont'd)

2.10. Cash and cash equivalents

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

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

2.11. Employee benefits

Long-term employee benefits
Each employee of the Group and the Company is entitled to 1 - 6 months salary payment when leaving the job at or after the start of the pension period according to Lithuanian legislation and the conditions of the collective bargaining agreement. The liability recognised in the balance sheet in respect of long-term employee benefits is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated at each balance sheet date in accordance to actuarial assumptions using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related liability.

Actuarial gains and losses are recognised immediately in the income/expense in the caption "Salaries and social security" and no "corridor" is applied. All past service costs are recognised immediately.

Other employee benefits
Wages, salaries, contributions to the state social insurance funds, vacation and sick leave are accrued in the year in which the employees provide their services to the Group and the Company.

2.12. Borrowings

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

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

Borrowing costs are expensed as incurred. Effectively from 1 January 2009 borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale form part of the costs of that asset.

2.13. Finance and operating leases – the Group and the Company as lessor

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of specific asset or assets or the arrangement conveys a right to use the asset.

Finance lease
Leases where the Group and the Company transfer substantially all the risks and benefits of ownership of the asset are classified as finance leases. The Group and the Company recognise lease receivables at the value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating lease
Leases where the Group and the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Group and the Company presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in the profit or loss on a straight-line basis over the lease term as other income. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for leased assets is consistent with the Group's and the Company's depreciation policy for similar assets, and depreciation is calculated in accordance with the accounting policies, used for the property, plant and equipment.

2. Accounting principles (cont'd)

2.14. Operating leases – the Group and the Company as lessee

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

The gains from discounts provided by the lessor are recognised as a decrease in lease expenses over the period of the lease using the straight-line method.

If the result of sales and lease back transactions is operating lease and it is obvious that the transaction has been carried out at fair value, any profit or loss is recognised immediately. If the sales price is lower than the fair value, any profit or loss is recognised immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and amortised in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortised over a period, during which the assets are expected to be operated.

2.15. Grants (deferred income)

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

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

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

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

2.16. Income tax

Income tax charge comprise current and deferred tax and is recognised based on profit for the year considering deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

The current income tax is based on taxable pre-tax profit for the year, excluding the items of income or expense that are not taxable or deductable. The tax rates used to compute the income tax expenses are those that are enacted by the balance sheet date. In 2009 the income tax rate in Lithuania was 20 % (15% in 2008). Starting 1 January 2010 a new tax rate of 15% is to be applied.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Group and the Company does not continue its activities due to reasons which do not depend on the Group and the Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the balance sheet liability method on temporary differences and tax loss carried forward. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets have been recognised in the balance sheet to the extent the Group's and the Company's management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2. Accounting principles (cont'd)

2.17. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. Provided that the number of shareholders changes without causing a change in the economical resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period presented. Since there are no instruments reducing earnings per share, there is no difference between the basic and diluted earnings per share.

2.18. Revenue recognition

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

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

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

2.19. Expense recognition

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

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

2.20. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognised in the profit or loss. Such balances denominated in foreign currencies are translated at period-end exchange rates.

2.21. Impairment of assets

<u>Financial assets</u>
Financial assets are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Group and the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised through an allowance account in the profit or loss. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the profit or loss. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group and the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2. Accounting principles (cont'd)

Other assets
Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the profit or loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. Reversal is accounted for in the same caption of the statement of comprehensive income as impairment losses.

2.22. Use of estimates in the preparation of financial statements

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

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

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

Change in accounting estimate
The Group and the Company has considered the actual useful life of property, plant and equipment and increased depreciation period for the heating connections from 20 years to 30 years and for the heating stations from 10 years to 15 years respectively starting from 1 September 2008. If the Group and the Company would continue using 20 and 10 years depreciation period, depreciation expenses for 2009 would be higher by LTL 4,473 thousand and property plant and equipment balance as at 31 December 2008 would be lower by LTL 6,073 thousand (depreciation expenses for 2008 would be higher by LTL 1,600 thousand and property plant and equipment balance as at 31 December 2008 would be lower by LTL 1,600 thousand).

Impairment of non-financial assets
When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

For evaluation of impairment of assets the entire Group and Company was considered as one cash generating unit as of 31 December 2008. As at 31 December 2009 there were two cash generating units in the Group and the Company, as manifolds received as a contribution in kind from the shareholders in 2009 are used not only in the activity of the Company but also in the activities of other companies providing utility and communication services for a separate fee and, therefore, are treated as a separate cash generating unit.

Carrying value of non-current assets received as a contribution in kind
In 2009 for a new shares issue manifolds in Kaunas city were received as a contrinbution in-kind. Market value of assets estimated upon their transfer by local independent qualified valuers using depreciated replacement costs method amounted to LTL 136 mln, however, it was not subject to adequate profitability test as required by International Valuation Standards. Value in use of assets received as a contribution in kind estimated using future discounted cashflows approximates LTL 23 mln as at 31 December 2009. Significant difference between value of assets estimated using depreciated replacement costs method and using discounted future cash flows indicate that depreciated replacement cost method may not be a reliable estimate of fair value of these assets. However, management has no information available about possible fair value of these non-current assets determined using other valuation methods.

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

2. Accounting principles (cont'd)

2.22. Use of estimates in the preparation of financial statements (cont'd)

Deferred Tax Asset
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 22.

Tax audits
The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Group's and the Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Litigations
On 17 February 2010 Vilnius Court of Commercial Arbitration finalised the hearing the civil case concerning the performance of the investment agreement concluded between the Company and the private company UAB Kauno Termofikacijos Elektrinė (Kaunas Power Plant) and passed the ruling in favour of the Company ordering UAB Kauno Termofikacijos Elektrinė to pay to the Company a fine of LTL 5,420 thousand and interest on this amount as well as a compensation of a part of litigation costs.

As at 31 December 2009, management was not certain that the latter case will end positively, therefore, no accrual for the fine awarded was accrued for in the Company's and the Group's financial statements.

2.23. Segments

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

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

2.24. Contingencies

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

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

2.25. Subsequent events

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

2.26. Offsetting and comparative figures

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

Where necessary, comparative figures have been adjusted to correspond to the presentation of the current year.

3. Intangible assets

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

	Group	Company
	Patents, licenses	
Cost:		
Balance as of 31 December 2007	5,328	5,253
Additions	343	264
Balance as of 31 December 2008	5,671	5,517
Additions	193	193
Disposals and write-offs	(101)	-
Balance as of 31 December 2009	5,763	5,710
Amortisation:		
Balance as of 31 December 2007	2,817	2,805
Charge for the year	1,071	1,029
Balance as of 31 December 2008	3,888	3,834
Charge for the year	664	654
Disposals and write-offs	(31)	-
Balance as of 31 December 2009	4,521	4,488
Net book value as of 31 December 2009	**1,242**	**1,222**
Net book value as of 31 December 2008	**1,783**	**1,683**
Net book value as of 31 December 2007	**2,511**	**2,448**

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

Part of the non-current intangible assets of the Group and the Company with the acquisition cost of LTL 2,782 thousand as of 31 December 2009 (LTL 2,231 thousand as of 31 December 2008) were fully amortised but were still in active use.

4. Property, plant and equipment

Group	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2007	55,489	332,134	4,578	14,495	8,204	414,900
Additions	392	15,675	217	814	8,874	25,972
Disposals and write-offs	(379)	(2,851)	(129)	(241)	-	(3,600)
Reclassifications	1,119	6,814	47	417	(8,397)	-
Balance as of 31 December 2008	56,621	351,772	4,713	15,485	8,681	437,272
Additions	35	140,556	1	1,643	14,412	156,647
Disposals and write-offs	-	(1,765)	(52)	(170)	-	(1,987)
Reclassifications	-	5,691	-	1,268	(6,959)	-
Balance as of 31 December 2009	56,656	496,254	4,662	18,226	16,134	591,932
Accumulated depreciation and impairment losses:						
Balance as of 31 December 2007	24,995	221,378	3,221	6,455	-	256,049
Charge for the year	1,140	15,206	526	2,335	-	19,207
Disposals and write-offs	(206)	(2,486)	(150)	(241)	-	(3,083)
Reclassifications	-	119	7	(126)	-	-
Balance as of 31 December 2008	25,929	234,217	3,604	8,423	-	272,173
Charge for the year	1,188	12,083	438	3,256	-	16,965
Disposals and write-offs	-	(1,716)	(32)	(160)	-	(1,908)
Reclassifications	-	(232)	-	232	-	-
Balance as of 31 December 2009	27,117	244,352	4,010	11,751	-	287,230
Net book value as of 31 December 2009	**29,539**	**251,902**	**652**	**6,475**	**16,134**	**304,702**
Net book value as of 31 December 2008	**30,692**	**117,555**	**1,109**	**7,062**	**8,681**	**165,099**
Net book value as of 31 December 2007	**30,494**	**110,756**	**1,357**	**8,040**	**8,204**	**158,851**

4. Property, plant and equipment (cont'd)

Company	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2007	52,947	331,578	3,942	14,243	8,204	410,914
Additions	392	15,661	217	760	8,874	25,904
Disposals and write-offs	(378)	(2,832)	(121)	(205)	-	(3,536)
Reclassifications	1,119	6,814	47	417	(8,397)	-
Balance as of 31 December 2008	54,080	351,221	4,085	15,215	8,681	433,282
Additions	35	140,556	-	1,638	14,412	156,641
Disposals and write-offs	-	(1,928)	(634)	(174)	-	(2,736)
Reclassifications	-	5,690	-	1,269	(6,959)	-
Balance as of 31 December 2009	54,115	495,539	3,451	17,948	16,134	587,187
Accumulated depreciation and impairment losses:						
Balance as of 31 December 2007	24,096	220,860	2,821	6,302	-	254,079
Charge for the year	1,082	15,171	441	2,277	-	18,971
Disposals and write-offs	(206)	(2,454)	(121)	(204)	-	(2,985)
Reclassifications	-	119	7	(126)	-	-
Balance as of 31 December 2008	24,972	233,696	3,148	8,249	-	270,065
Charge for the year	1,131	12,072	371	3,224	-	16,798
Disposals and write-offs	-	(1,870)	(594)	(161)	-	(2,625)
Reclassifications	-	(232)	-	232	-	-
Balance as of 31 December 2009	26,103	243,666	2,925	11,544	-	284,238
Net book value as of 31 December 2009	**28,012**	**251,873**	**526**	**6,404**	**16,134**	**302,949**
Net book value as of 31 December 2008	**29,108**	**117,525**	**937**	**6,966**	**8,681**	**163,217**
Net book value as of 31 December 2007	**28,851**	**110,718**	**1,121**	**7,941**	**8,204**	**156,835**

The depreciation charge of the Group's and Company's property, plant and equipment for 2009 amounts to LTL 16,965 thousand and LTL 16,798 thousand, respectively (LTL 19,207 thousand and LTL 18,971 thousand in 2008). The amounts of LTL 16,024 thousand and LTL 15,856 thousand for the year 2009 (LTL 17,911 thousand and LTL 17,755 thousand for the year 2008), respectively, were included into operating expenses in the Group's and the Company's statement of comprehensive income. The remaining amounts were included into other expenses caption.

Part of the property, plant and equipment of the Company with acquisition cost of LTL 78,905 thousand were fully depreciated as of 31 December 2009 (LTL 50,828 thousand as of 31 December 2008) but were still in active use.

As of 31 December 2009 and 2008 the major part of the Group' s and Company's construction in progress consisted of reconstruction works.

As of 31 December 2009 property, plant and equipment of the Group and the Company with the net book value of LTL 114,153 thousand (LTL 73,691 thousand as of 31 December 2008) was pledged to banks as a collateral for loans (Note 11).

5. Non-current accounts receivable

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Long-term loans granted to the Company's employees	61	56	61	56
Other	-	9	48	9
	61	65	109	65

Long-term loans granted to the employees of the Company for the period from 1997 to 2023 and are non-interest bearing. These loans are accounted for at discounted value using 10.0 % interest rate.

All non-current accounts receivable as of 31 December 2009 and 2008 are neither past due nor impaired.

6. Other financial assets

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Available-for-sale financial assets				
Ordinary shares – unquoted	433	433	433	433

7. Inventories

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Technological fuel	3,429	3,443	3,429	3,443
Spare parts	1,197	1,457	1,047	1,457
Materials	988	1,356	992	1,316
	5,614	6,256	5,468	6,216
Valuation allowance at the end of the year	(242)	(675)	(242)	(675)
	5,372	5,581	5,226	5,541

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 December 2009 amounted to LTL 242 thousand (LTL 675 thousand as of 31 December 2008).

Changes in the valuation allowance for inventories for the year 2009 and 2008 was included into change in inventories allowance caption in the Group's and the Company's statement of comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Trade receivables, gross	85,005	74,277	84,690	74,512
Less: impairment of doubtful receivables	(25,177)	(19,480)	(25,177)	(19,480)
Trade receivables, net	59,828	54,797	59,513	55,032

Change in impairment of doubtful receivables in 2009 and 2008 is included into the write offs and change in allowance for accounts receivables caption in the Group's and the Company's statements of comprehensive income.

As of 31 December 2009 trade receivables with the nominal value of LTL 25,177 thousand (as of 31 December 2008 – LTL 19,480 thousand) were impaired and fully provided for.

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

	Total
Balance as of 31 December 2007	**20,399**
Unused amounts reversed	(241)
Utilized	(678)
Balance as of 31 December 2008	**19,480**
Utilized	(856)
Additional allowance formed	6,553
Balance as of 31 December 2009	**25,177**

In 2009 the Group and the Company wrote off LTL 856 thousand (in 2007 – LTL 678 thousand) of bad debts.

In 2009 the Group and the Company also recovered LTL 29 thousand of bad debts (in 2008 – LTL 67 thousand), which were written off in the previous periods.

The ageing analysis of the Group's trade receivables as of 31 December 2009 and 2008 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2009	38,958	7,951	1,580	2,353	7,243	1,743	59,828
2008	43,602	6,338	1,569	1,612	817	859	54,797

The ageing analysis of the Company's trade receivables as of 31 December 2009 and 2008 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2009	38,643	7,951	1,580	2,353	7,243	1,743	59,513
2008	43,851	6,336	1,557	1,612	817	859	55,032

Trade receivables are non-interest bearing and are generally on 30 days terms or individually agreed.

The major part of the Group's and the Company's trade receivables, past due more than 241 days, comprise the accounts receivable from budget organisations, financed from budgets of the State and municipalities, and from institutions financed by Patient's Funds, for which the allowance is not accrued by the Group and the Company.

8. Current accounts receivable (cont'd)

Other receivables of the Group and the Company can be analysed as follows:

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Taxes	2,806	5,896	2,806	5,896
Other receivables	1,555	2,651	1,841	2,759
Total	4,361	8,547	4,647	8,655

As of 31 December 2008, the major part of other receivables consists of debt of municipalities for compensations to low income families, the receivables from sold inventories (metals, heating equipments) and other services supplied (transportation and permanent heating systems maintenance).

The ageing analysis of the Group's other receivables (excluding taxes) as of 31 December 2009 and 2008 is as follows:

		Other receivables past due but not impaired					
	Other receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2009	1,490	40	11	8	6	-	1,555
2008	2,305	63	39	-	2	242	2,651

The ageing analysis of the Company's other receivables (excluding taxes) as of 31 December 2009 and 2008 is as follows:

		Other receivables past due but not impaired					
	Other receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2009	1,776	40	11	8	6	-	1,841
2008	2,413	63	39	-	2	242	2,759

The Group's and the Company's other receivables are non-interest bearing and are generally on 30 - 45 days terms.

Credit quality of financial assets neither past due nor impaired

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

9. Cash and cash equivalents

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Cash in transit	1,557	2,158	1,557	2,158
Cash at bank	1,541	1,437	1,505	1,426
Cash on hand	33	21	32	20
	3,131	3,616	3,094	3,604

The Group's and the Company's accounts in national currency in banks amounting to LTL 1,327 thousand as at 31 December 2009 (2008 – LTL 801 thousand) are pledged as collateral for the loans (Note 11).

10. Reserves

Legal and other reserves

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

On 29 April 2008, based on the decision of the shareholders the Company transferred an amount of LTL 8,515 thousand from legal reserve to cover losses of 2007. On 7 March 2008 based on the decision of the shareholders the Subsidiary transferred an amount of LTL 183 thousand from other reserve and retained earnings to the legal reserve.

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

11. Borrowings

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Non-current borrowings				
Non-current borrowings	37,198	33,921	37,198	33,921
Current borrowings				
Current portion of non-current borrowings	12,884	8,748	12,884	8,748
Current borrowings (including credit line)	5,964	15,720	5,964	15,720
Other interest bearing liabilities	3,699	-	3,699	-
	22,547	24,468	22,547	24,468
Total	59,745	58,389	59,745	58,389

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

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
2009	-	8,748	-	8,748
2010	12,884	9,570	12,884	9,570
2011	14,338	9,940	14,338	9,940
2012	9,781	4,682	9,781	4,682
2013	4,981	3,987	4,981	3,987
2014	4,932	3,987	4,932	3,987
2015	1,961	1,406	1,961	1,406
2016	850	349	850	349
2017	355	-	355	-
	50,082	42,669	50,082	42,669

11. Borrowings (cont'd)

Actual interest rates are close to effective interest rates. Weighted average effective interest rates (in %) of borrowings outstanding at the year-end are as follows:

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Current borrowings	3.6	7.7	3.6	7.7
Non-current borrowings	3.5	5.9	3.5	5.9

Parts of borrowings at the end of the year in national and foreign currencies are as follows:

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Currency of the loan:				
EUR	50,863	32,913	50,863	32,913
LTL	8,882	25,476	8,882	25,476
	59,745	58,389	59,745	58,389

On 1 August 2005 the Group and the Company signed a long-term loan agreement with AB Bankas 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 2009 the outstanding balance of the loan amounted to LTL 2,089 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. The loan bears 6-month VILIBOR plus 0.77 % interest rate.

On 23 August 2005 the Group and the Company signed a long-term loan agreement with AB SEB Bankas for the amount of EUR 8,776 thousand (the equivalent of LTL 30,300 thousand). The maturity date of the last portion of the loan is 31 December 2014. The outstanding balance of the loan amounted to EUR 3,620 thousand (the equivalent of LTL 12,000 thousand) as of 31 December 2009, of which LTL 2,500 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 1.9 % interest rate.

On 1 December 2006 the Group and the Company signed a long-term loan agreement with Nordea Bank Finland Plc. Lithuanian branch for the amount of LTL 2,090 thousand. On 18 April 2007 the loan amount increased up to LTL 6,090 thousand. The maturity date of the last portion of the loan is 31 October 2015. As of 31 December 2009 the outstanding balance of the loan amounted to LTL 4,987 thousand, of which LTL 839 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 3-month VILIBOR plus 0.45 % interest rate.

On 21 December 2006 the Group and the Company signed a long-term loan agreement with AB SEB Bankas for the amount of EUR 2,059 thousand (the equivalent of LTL 7,108 thousand). The maturity date of the last portion of the loan is 30 November 2016. As of 31 December 2009 the outstanding balance of the loan amounted to EUR 715 thousand (the equivalent of LTL 2,470 thousand), of which LTL 395 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 0.4 % interest rate.

On 14 November 2007 the Group and the Company signed a long-term loan agreement with AB DnB NORD Bankas for the amount of EUR 576 thousand (the equivalent of LTL 1,989 thousand). The maturity date of the last portion of the loan is 31 December 2016. As of 31 December 2009 the outstanding balance of the loan amounted to EUR 504 thousand (the equivalent of LTL 1,740 thousand), of which LTL 248 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 12-month EUR LIBOR plus 0.59 % interest rate.

On 20 April 2007 the Group and the Company signed an overdraft agreement with Danske Bank A/S Lithuania Branch for the amount of LTL 1,010 thousand, with the maturity date of 20 October 2009. As of 31 December 2009 the overdraft was repaid. The overdraft beared 3-month VILIBOR plus 0.44 % interest rate.

11. Borrowings (cont'd)

On 31 July 2008 the Group and the Company signed a long-term investment credit agreement with Danske Bank A/S Lithuania Branch for the amount of EUR 984 thousand (the equivalent of LTL 3,398 thousand). The maturity date of the last portion of the loan is 2018. As of 31 December 2009 the outstanding balance of the investment credit amounted to EUR 514 thousand (the equivalent of LTL 1,774 thousand), of which LTL 350 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 3-month EURIBOR plus 0.385 % interest rate.

On 31 July 2008 the Group and the Company signed a long-term investment credit agreement with Danske Bank A/S Lithuania Branch for the amount of EUR 1,158 thousand (the equivalent of LTL 4,000 thousand). The maturity date of the last portion of the loan is 31 December 2017. As of 31 December 2009 the outstanding balance of the investment credit amounted to EUR 1,146 thousand (the equivalent of LTL 3,955 thousand), of which LTL 200 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 3-month EURIBOR plus 0.7 % interest rate.

On 22 September 2008 the Group and Company signed a long-term loan agreement with AB SEB Bankas for the amount of EUR 3,333 thousand (the equivalent of LTL 11,508 thousand). The maturity date of the last portion of the loan is 31 December 2011. As of 31 December 2009 the outstanding balance of the loan amounted to EUR 2,433 thousand (the equivalent of LTL 8,401 thousand), of which LTL 4,200 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 1-month EUR LIBOR plus 0.7 % interest rate.

On 5 September 2008 the Group and the Company signed a short - term loan agreement with AB SEB Bankas for the amount of EUR 174 thousand (the equivalent of LTL 601 thousand). The maturity date of the loan is 31 May 2009. As at 31 December 2009 the loan is repaid.

On 4 June 1999 the Group and the Company signed a credit line agreement with AB SEB Bankas for the amount of LTL 7,000 thousand, with the maturity date of 18 July 2009. As of 31 December 2009 the Group and the Company's balances of used credit line was LTL 1,560 thousand (LTL 6,950 thousand as of 31 December 2008). The credit line bears OVER'N VILIBOR plus 1.9 % interest rate. On 19 August 2009 the agreement was prolonged until 19 July 2010. The credit line bears 1-month VILIBOR plus 3.4 % interest rate.

On 8 July 2004, the Group and the Company signed an overdraft agreement with AB DnB NORD Bankas for the amount of LTL 18,000 thousand and for the term expiring on 31 May 2008. On 27 May 2008, the limit of the overdraft line of credit was reduced to the amount of LTL 10,000 thousand and the repayment term was extended until 31 May 2009. On 29 May 2009, the validity term of the agreement was extended until 29 May 2010 by changing the overdraft limit to EUR 2,896 thousand (LTL 9,999 thousand). As at 31 December 2009, the utilised amount of the overdraft by the Group and the Company was EUR 1,268 thousand (LTL 4,380 thousand) (31 December 2008: LTL 8,760 thousand). The overdraft bears 1-month EURIBOR plus 3 % annual interest

On 26 February 2009, the Company, UAB Nordea Finance Lithuania and UAB Kauno Termofikacijos Elektrinė signed an agreement on the deferral of the payment for heat energy for an additional term of 30 days thus amending the original term established in the Head energy purchase and sale agreement as described in Note 1. This agreement was signed in connection with the factoring contract concluded on 26 February 2009 between UAB Nordea Finance Lithuania and UAB Kauno Termofikacijos Elektrinė regarding the billings for heat energy issued to the Company. The amount of the liability is EUR 1,000 thousand (LTL 3,453 thousand) as at 31 December 2009. Interest of 1-night EURIBOR plus 3.5 % is payable on the amount outstanding.

On 25 September 2009 the Group and the Company signed a loan agreement with Swedbank AB for the amount of EUR 2,896 thousand (the equivalent of LTL 10,000 thousand), with the maturity date of 25 September 2012. As of 31 December 2009 the Group and the Company's balance of used loan was EUR 2,838 thousand (the equivalent of LTL 9,798 thousand), of which LTL 3,320 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 3.85 % interest rate.

On 2 December 2009 the Group and the Company signed a loan agreement with Swedbank AB for the amount of EUR 3,815 thousand (the equivalent of LTL 13,171 thousand), with the maturity date of the last portion of the loan on 2 December 2016. As of 31 December 2009 the balance of used loan was EUR 686 thousand (the equivalent of LTL 2,368 thousand), which was accounted for within non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 4.5 % interest rate.

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

12. Finance lease obligations

The assets leased by the Group under finance lease contracts mainly consist of vehicles. The terms of financial lease are from 2 to 5 years. The distribution of the net book value of the assets acquired under financial lease is as follows:

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Vehicles	80	186	-	55

As of 31 December 2009 the interest rate on the financial lease obligations is fixed and variable. Fixed interest rate is equal to 3.99 %. The variable interest rate varies depending on 6-month EURIBOR plus 1.5 %.

Future minimal lease payments under the financial lease contracts as of 31 December 2009 are as follows:

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Within one year	54	93	-	38
From one to five years	45	101	-	-
Total financial lease obligations	99	194	-	38
Interest	(4)	(13)	-	(1)
Present value of financial lease obligations	95	181	-	37
Financial lease obligations are accounted for as:				
- current	51	86	-	37
- non-current	44	95	-	-

13. Grants (deferred income)

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Balance at the beginning of the reporting period	**10,253**	**10,503**	**10,253**	**10,503**
Received during the year	2,209	889	2,209	889
Amortisation	(630)	(1,139)	(630)	(1,139)
Balance at the end of the reporting period	**11,832**	**10,253**	**11,832**	**10,253**

In 2008 the Company received the heating network located in Žiemgalių Str. and Raudondvario Rd. for free, fair value of which at the date of the transfer amounted to LTL 149 thousand. As well, in 2008 the Group and the Company received telecommunication equipment, the fair value of which at the date of the transfer amounted to LTL 140 thousand. On 10 October 2008 the branch of the Company Jurbarko Šilumos Tinklai received LTL 600 thousand subsidy for the change of the boiler burned by fuel oil to the boiler burned by gas from VšĮ Lietuvos Aplinkos Apsaugos Investicijų Fondas (LAAIF). As of 31 December 2008 the VšĮ LAAIF transferred LTL 360 thousand to the Company, the remaining part of LTL 240 thousand was accounted for by the Group and the Company under other accounts receivable caption as of 31 December 2008. As at 31 December 2009 VšĮ LAAIF fully settled its liability to the Company.

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Renovation of Centralised Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at Krėvės Ave. 82 A.118H, Kaunas) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 6,000 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 2,209 thousand by 31 December 2009.

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

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

14. Employee benefit liability

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

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

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Non-current employee benefit liability	1,820	1,612	1,820	1,612
Current employee benefit liability	656	408	656	408
	2,476	2,020	2,476	2,020

Total amount of employee benefit expenses of the Group and the Company amounted to LTL 521 thousand during the year ended 31 December 2009 (LTL 335 thousand during the year ended 31 December 2008) and are included in salaries and social security expenses in the Group's and the Company's statement of comprehensive income.

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

	As of 31 December 2009	As of 31 December 2008
Discount rate	7.0 %	7.0 %
Employee turnover rate	18.9 %	18.9 %
Expected average annual salary increases	3.0 %	3.0 %

15. Trade payables

Trade payables are non-interest bearing and are normally settled on 30 - 90 day terms.

16. Derivative financial instruments

On 29 October 2008, the Group and the Company concluded an interest rate swap agreement for the period from 24 November 2008 to 22 November 2010. The Group and the Company set a fixed interest rate at 3.86 % for a floating interest rate at 1-month EURIBOR. The notional amount of the transaction was EUR 2,433 thousand (the equivalent of LTL 8,401 thousand) as at 31 December 2009 (EUR 3,133 thousand (the equivalent of LTL 10,818 thousand) as at 31 December 2008). Market value of swap amounted to LTL 181 thousand as at 31 December 2009.

On 24 October 2008, the Group and the Company concluded an interest rate swap agreement for the period from 22 October 2008 to 23 August 2010. The Group and the Company set a fixed interest rate at 4,24 % for a floating interest rate at 6-month EUR LIBOR. The notional amount of the transaction was EUR 4,344 thousand (the equivalent of LTL 15,000 thousand) as at 31 December 2008. The agreement was terminated on 9 April 2009.

On 9 April 2009, the Group and the Company concluded an interest rate swap agreement for the period from 24 August 2009 to 22 August 2014. The Group and the Company set a fixed interest rate at 4.15 % for a floating interest rate at 6-month EURIBOR. The notional amount of the transaction was EUR 3,620 thousand (the equivalent of LTL 12,500 thousand) as at 31 December 2009. Market value of swap amounted to LTL 606 thousand as at 31 December 2009.

17. Sales income

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

	Group		Company	
	2009	2008	2009	2008
Heat energy	277,001	201,760	277,053	201,793
Maintenance of the heating and hot water supply systems of buildings	2,365	3,708	1,450	2,934
Electricity energy	393	506	393	506
Revenue from sale of emission rights	117	-	117	-
Maintainance of manifolds	535	-	535	-
	280,411	205,974	279,548	205,233

18. Other expenses

	Group		Company	
	2009	2008	2009	2008
Debts collection expenses	731	2,512	731	2,512
Cash collection expenses	2,471	2,126	2,338	2,124
Equipments verification and inspection	1,548	933	1,598	846
Customer bills issue and delivery expenses	541	816	541	816
Communication expenses	567	677	548	634
Employees related expenses	303	595	262	521
IT maintenance and related services	162	494	174	451
Transport expenses	98	392	118	339
Rent of equipment and machinery	25	311	5	311
Consulting expenses	625	304	622	230
Insurance	253	267	237	267
Membership fee	170	252	170	252
Advertising expenses	84	169	83	149
Stationery and post expenses	63	117	61	107
Audit expenses	73	89	67	89
Other expenses	1,194	706	1,153	600
	8,908	10,760	8,708	10,248

19. Other activities income and expenses

	Group		Company	
	2009	2008	2009	2008
Income from other operating activities				
Miscallenious services	977	1,003	903	992
Materials sold	93	111	132	112
Gain from sale of non-current assets	4	162	96	157
Other	40	61	33	61
	1,114	1,337	1,164	1,322
Expenses from other operating activities				
Cost of miscallenious services	(567)	(631)	(545)	(625)
Cost of materials sold	(168)	(253)	(208)	(253)
Loss from sale of non-current assets	(5)	(475)	(6)	(475)
Write off of non-current assets	(81)	-	(81)	-
Other	(4)	(4)	-	(4)
	(825)	(1,363)	(840)	(1,357)

20. Finance income

	Group		Company	
	2009	2008	2009	2008
Income from financial and investment activities				
Interest from late payment of accounts receivable	1,571	1,230	1,571	1,230
Bank interest receivable	3	18	3	18
Dividends received	-	-	-	-
Other	2	33	2	33
	1,576	1,281	1,576	1,281

21. Finance costs

	Group		Company	
	2009	2008	2009	2008
Interest on bank loans and overdrafts	(3,269)	(2,772)	(3,264)	(2,764)
Change in fair value of derivative financial instruments	(220)	(567)	(220)	(567)
Impairment loss of investment in subsidiary	-	-	-	(465)
Late interest penalties	(121)	-	(121)	-
Other	(1)	(4)	(1)	(4)
	(3,611)	(3,343)	(3,606)	(3,800)

22. Income tax

	Group		Company	
	2009	2008	2009	2008
Components of the income tax expense				
Current income tax for the reporting year	-	-	-	-
Deferred income tax (income)	2,118	(660)	1,895	(436)
Income tax (income) recorded in the statement of comprehensive income	2,118	(660)	1,895	(436)

Deferred income tax asset and liability was accounted for using the rates of 15 % (in 2009) and 20 % (in 2008) (refer to Note 2.16.). All changes in deferred tax are reported in the statement of comprehensive income.

Deferred income tax consists of:

	Group		Company	
	2009	2008	2009	2008
Deferred income tax asset				
Tax loss carry forward	1,717	3,642	1,717	3,642
Accruals	358	486	358	485
Differences of depreciation	65	95	65	95
Deferred income tax asset	2,140	4,223	2,140	4,222
Deferred income tax liability				
Investment incentive	(1,557)	(2,341)	(1,557)	(2,341)
Revaluation of the assets transferred to subsidiary	-	-	(669)	(892)
Differences of depreciation	(2,613)	(1,794)	(2,613)	(1,794)
Deferred income tax liabilities	(4,170)	(4,135)	(4,839)	(5,027)
Deferred income tax, net	(2,030)	88	(2,699)	(805)

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

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

	Group		Company	
	2009	2008	2009	2008
Profit (loss) before tax	8,522	(4,894)	8,823	(4,779)
Income tax income (expenses) calculated at statutory rate	(1,704)	734	(1,764)	717
Change in deferred income tax due to change in tax rate	674	22	897	(201)
Permanent differences	(1,088)	(96)	(1,028)	(80)
Profit tax credit (expenses) reported in the statement of comprehensive income	(2,118)	660	(1,895)	436

23. Basic and diluted earnings (loss) per share

Calculations of the basic and diluted (loss) per share of the Group are presented below:

	Group	
	2009	2009
Total comprehensive income (loss)	6,404	(4,234)
Number of shares (thousand), opening balance	19,918	19,718
Number of shares (thousand), closing balance	42,618	19,918
Average number of shares (thousand)	29,376	19,818
Basic and diluted earnings (loss) per share (LTL)	0.22	(0.21)

24. Financial assets and liabilities and risk management

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

	31 December 2009	
	Group	Company
Municipalities and other government institutions	16,142	16,142
Citizens	37,699	37,699
Other	5,987	5,672
	59,828	59,513

Cash and cash equivalents in banks (assessed in accordance with long-term borrowing ratings*):

	31 December 2009	
	Group	Company
A	1,044	1,008
A+	63	63
AA-	389	389
B+	2	2
-	43	43
	1,541	1,505

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

The Group and the Company do not guarantee obligations of the other parties, except as described in Note 25.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payments obligations since receivables balances are monitored on an ongoing basis. The Group and the Company consider that their maximum exposure to credit risk is reflected by the amount of trade receivables and other receivables, net of allowance for doubtful accounts recognised at the balance sheet date (Note 8).

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

24. Financial assets and liabilities and risk management (cont'd)

Interest rate risk
All of the Group's and the Company's borrowings are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2008 to manage variable rate risk the Company has entered into interest rate swaps agreements, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts as described in Note 16, calculated by the reference to an agreed upon notional principal amount.

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

	Increase/decrease in basis points	Effect on profit before tax
2009		
LTL	+170	(150)
LTL	- 170	150
EUR	+ 30	(153)
EUR	- 30	153
2008		
LTL	+ 16.6	(42)
LTL	- 16.6	42
EUR	+ 15.0	(11)
EUR	- 15.0	11

Liquidity risk
The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as of 31 December 2009 were 1.04 and 0.97, respectively (0.91 and 0.84 as of 31 December 2008). The Company's liquidity and quick ratios as of 31 December 2009 were 1.05 and 0.97, respectively (0.91 and 0.84 as of 31 December 2008).

The Group and the Company expects to overcome liquidity issues implementing the following action plan:

(1) the price effective from 1 December 2008 and the price effective from 1 June 2009 include costs for fuel and heat energy purchased that were actually incurred during the previous period but not yet covered. From 1 October 2009, the heat price for consumers is calculated using two components. A constant component of the heat price remains unchanged for the period during which the recalculated heat price is valid. Only a variable component changes depending on changes in fuel prices thus allowing the Company to reduce possible losses in case of rise in fuel prices.
(2) the Company attempts to receive part of investments funds from the EU Structural Funds. The Company has submitted 5 projects, the support for three of them (50 % of the cost of the project, but not more than LTL 6 million) was received in 2009 as described in note 13;
(3) non-priority investments are suspended;
(4) in addition, the Group and the Company implements the cost reduction means: temporary termination of membership in various associations, implementation of production and transfer loss reduction plan.

Considering the increase in heat price, decrease in gas prices and other cost reducing plans, the Group and the Company expects reported profits for 2009 used to cover accumulated losses of prior periods.

24. Financial assets and liabilities and risk management (cont'd)

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2009 and 2008 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	6,731	17,724	36,344	3,240	64,039
Trade payables	39,116	2,334	52	-	41,502
Balance as of 31 December 2009	**45,847**	**20,058**	**36,396**	**3,240**	**105,541**
Interest bearing loans and borrowings	2,626	25,125	33,511	6,059	67,321
Trade payables	50,749	180	-	-	50,929
Other current liabilities	319	-	-	-	319
Balance as of 31 December 2008	**53,694**	**25,305**	**33,511**	**6,059**	**118,569**

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2009 and 2008 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	6,731	17,670	36,299	3,240	63,940
Trade payables	39,300	2,224	5	-	41,529
Balance as of 31 December 2009	**46,031**	**19,894**	**36,304**	**3,240**	**105,469**
Interest bearing loans and borrowings	2,615	25,068	33,307	6,059	67,049
Trade payables	51,181	180	-	-	51,361
Other current liabilities	319	-	-	-	319
Balance as of 31 December 2008	**54,115**	**25,248**	**33,307**	**6,059**	**118,729**

Foreign currency risk

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

Monetary assets and liabilities denominated in local and foreign currencies as of 31 December 2009 were as follows (stated in LTL):

	Group		Company	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	67,373	57,000	67,354	56,724
EUR	9	50,871	9	50,871
	67,382	**107,871**	**67,363**	**107,595**

24. Financial assets and liabilities and risk management (cont'd)

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

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

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

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

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2009 and 2008, except for increase in share capital paid by contributions in kind as disclosed in Note 1.

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

24. Financial assets and liabilities and risk management (cont'd)

The Group and the Company monitor capital using debt to equity ratio. Capital includes ordinary shares, reserves, retained earnings attributable to the equity holders of the parent. There is no specific debt to equity ratio target set out by the Group's and the Company's management, however current ratios presented below are treated as sustainable performance indicators.

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Non-current liabilities (including deferred tax and grants)	53,659	46,705	54,284	47,415
Current liabilities	70,205	80,537	69,973	80,740
Liabilities	123,864	127,242	124,257	128,155
Equity	255,882	113,278	259,755	116,627
Debt* to equity ratio	**48,41**	**112,33**	**47,84**	**109,88**

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

25. Commitments and contingencies

The Company participates as a third party in the administrative litigation regarding the UAB Kauno Termofikacijos Elektrinė complaint on the Commission decree "On the UAB Kauno Termofikacijos Elektrinė heat production base price fixing" annulment on 24 October 2008. KTE claims that the heat production price, calculated on 31 March 2003 according to the terms of Heat energy purchase and sales agreement, should continue to be applied, not the revised price determined by the Commission. Based on the Civil Code of the Republic of Lithuania, decrees of the courts of the Republic of Lithuania and responses of Kaunas city municipality and the Commission, the Company believes that the Heating Law of the Republic of Lithuania which came into force on 1 January 2008 prevails over the Heat energy purchase and sales agreement signed on 31 March 2003 by the Company and KTE, therefore the possibility that the claim will be set by KTE is remote and no provision related to this possible case was recognized in the Group's and the Company's financial statements. At the date of issuance of these financial statements all claims were rejected by Vilnius County Court and KTE appealed against these decisions. The Lithuanian Supreme Administrative Court investigated one of the claims and rejected it, the others have not been yet investigated.

On 31 March 2003 the Company has signed the agreement with KTE for an investment plan. As KTE fails to fulfil obligations assumed with regard to the amount of investments in due time and according to this agreement KTE is committed the pay to the Company a fine of LTL 17.7 million of the amount of unimplemented investments, the parties initiated negotiations with the purpose of amending the investment agreement and the term of investments. As at 31 December 2009, an agreement acceptable to both parties regarding the amendment of the investment agreement was not reached. The dispute over the amount of LTL 17.7 million is being solved in the Arbitration Court at the Association International Chamber of Commerce – Lithuania. The Arbitration Court accepted the Company's claim and commenced the arbitral proceedings. The decision adopted in these proceedings is described in Note 27.

In August 2009, Lithuanian tax authorities conducted an investigation in the Company to assess the appropriateness of VAT relief applied on certain services supplied to residential premises during the period of October 2008 - June 2009. The tax authorities claimed that the Company incorrectly applied the relief where invoices were issued to legal entities, i.e. not individuals, and should either provide proof that the VAT relief was applied only in cases where the end user of the supplies is an individual resident at the premises supplied with heating, or adjust VAT returns and additional forms and pay additional amount of LTL899 thousand to the State budget for the period under investigation. The Company is currently reviewing supplies to its customers representing legal entities which received supplies at the reduced VAT rate and collecting the proof regarding the application of the relief for the period of January 2005 - December 2009. According to the preliminary assessment made by the Company, the amounts of VAT adjustments are not expected to be material for the financial statements of the Group and the Company, therefore, they have not been included in these financial statements.

26. 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 2009 and 2008 the Group and the Company did not have any significant transactions with the other companies controlled by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the entities controlled by the Kaunas city municipality were executed at market prices.

In 2009 and 2008 the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by Kaunas city municipality and the balances at the end of the year were as follows:

2009	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	443	24,597	15,063	18
Jurbarkas city municipality	3	1,866	278	37

2008	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,379*	20,670	8,183	100
Jurbarkas city municipality	-	-	600**	-

* includes LTL 125 thousand land lease tax paid to Kaunas city municipality
** represents receivable amount from shareholder for issued, but not paid capital

In 2009 and 2008 the Company's transactions with the subsidiary and the balances at the end of the year were as follows:

2009	Purchases	Sales	Receivables	Payables
Pastatų priežiūros paslaugos UAB	1,546	347	396	94

2008	Purchases	Sales	Receivables	Payables
Pastatų priežiūros paslaugos UAB	2,569	261	51	157

Remuneration of the management and other payments

As at 31 December 2009 the Group's and the Company's management team comprised 6 and 4 persons (6 and 4 persons as of 31 December 2008).

	Group		Company	
	2009	2008	2009	2008
Key management remuneration	494	775	338	582
Post-employment benefits paid	93	-	93	-

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Calculated post-employment benefits	44	103	44	103

In 2009 and 2008 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

27. Post balance sheet events

On 17 February 2010 in the Company's extraordinary shareholders meeting it was decided to increase the share capital by LTL 682 thousand (from LTL 255,710 thousand to LTLi 256,392 thousand) issuing 113,595 ordinary shares with the par value LTL 6 each. The issue price of shares is equal to their nominal value. A building of a boiler house located in Kaunas city, owned by Kaunas City Municipality, and engineering networks located in Jurbarkas city, owned by Jurbarkas Region Municipality, were received as a payment in kind for these shares.

On 17 February 2010, Vilnius Court of Commercial Arbitration finalised the hearing of the civil case and passed the ruling in this case in favour of the claimant (the Company) ordering the defendant (UAB Kauno Termofikacijos Elektrinė) to pay to the Company a fine of LTL 5,420 thousand together interest on this amount as prescribed by legislative acts and a compensation of a part of litigation costs. A counter-claim filed against the Company by the defendant UAB Kauno Termofikacijos Elektrinė in the same civil case was rejected. The ruling of the Arbitration Court in this case is final.

KAUNO ENERGIJA AB CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2009

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 2009 of Kauno Energija AB (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 2009 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

CONTENTS

1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Annual Report of Kauno Energija AB has been prepared, is the year 2009.

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

Kauno Energija AB (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 Pastatų Priežiūros Paslaugos UAB, in which the Issuer directly controls 100 % of shares.

The main data about the Company:

Name of the company:	Kauno Energija AB
Legal-organizational form:	Public company
Address:	Raudondvario rd. 84, 47179 Kaunas - 21
Code of the legal person:	235014830
Telephone number:	(+370 37) 305 650
E mail:	info@kaunoenergija.lt
Webpage:	www.kaunoenergija.lt
Fax number:	(+370 37) 305 622
Registration date and place:	22 August 1997, Kaunas, Order No. 513
Register manager:	Kaunas Branch of State Enterprise Register Centre
VAT payer code:	LT350148314

On 6 August 2009 the authorized share capital amounted to LTL 255,710,292 (two hundred fifty-five million, seven hundred and ten thousand, two hundred and ninety-two litas) and it was divided into 42,618,382 (forty-two million, six hundred and eighteen thousand, three hundred and eighty-two) ordinary registered shares of LTL 6 (six litas) nominal value.

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 - 43
Telephone number:	(+370 37) 305 959
E-mail:	info@kaunoenergija.lt
Webpage:	www.p-p-p.lt
Fax number:	(+370 37) 311 877
Registration date and place:	1 July 2006, Kaunas
Code of the legal person:	300580563
Register manager:	Kaunas Branch of State Enterprise Register Centre
VAT payer code:	LT100002506015

The authorized share capital amounts to LTL 6,518,000 (six million, five hundred and eighteen thousand litas) and it is divided into 65,180 (sixty-five thousand, one hundred and eighty) ordinary registered shares of LTL 100 (one hundred litas) nominal value.

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. Kauno Energija AB 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. 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 SEB Bankas AB (company code 1202123, Gedimino ave. 12, Vilnius), represented by the Finance Markets Department.

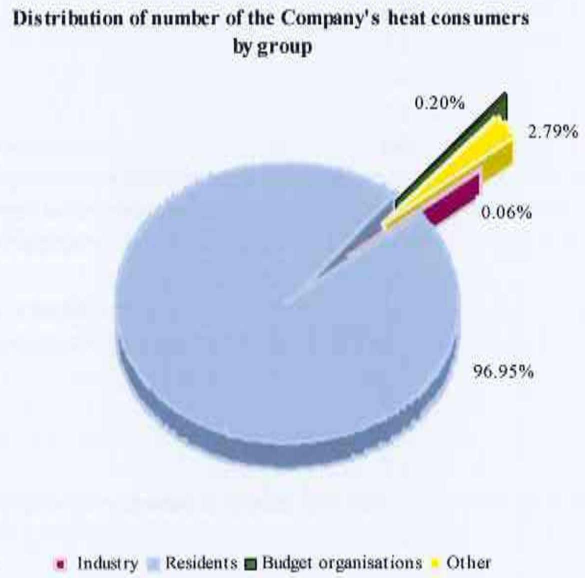
5. Trade in securities of companies composing the group of companies in regulated markets (the name of regulated market, the amount of securities in trade)

As at 31 December 2009, the Issuer's 42,618,382 ordinary registered shares (VP ISIN code LT0000123010) with total nominal value equal to LTL 255,710,292 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 2009, 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. 3,782 enterprises and organizations, as well as consumers from 120,290 units of residential households were connected to the integrated and local heat supply network of the Company.



In 2009, the Group and the Company earned LTL 6,404 thousand and LTL 6,928 thousand profit (after tax), respectively. The Group's and the Company's income from the main activity amounted to LTL 280,411 thousand and LTL 279,548 thousand, respectively. The major part of income was generated from sales of heat: the Group's – 98.78 %, and the Company's – 99.11 %.

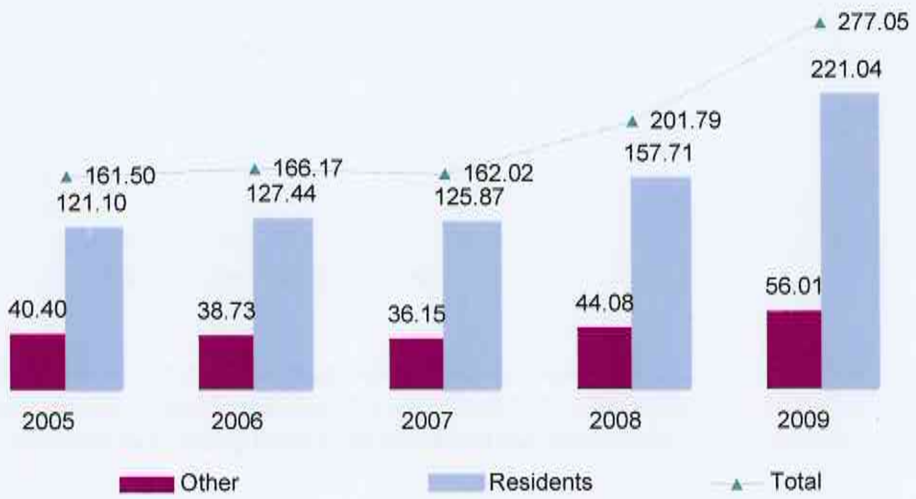
The mission of the Company is to be a profitable and competitive company engaged in energy production, supply and distribution in Kaunas district. The vision of the Company is to be a company using modern, effective and environmentally friendly technologies and management approach, as well as having 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 2009, the Company's revenue from sales of heat reached LTL 277,053 thousand, which indicates an increase as compared to 2008 (see Chart 2).

Chart 2

Revenue from sales of heat (total and by group of consumers) (LTL million)

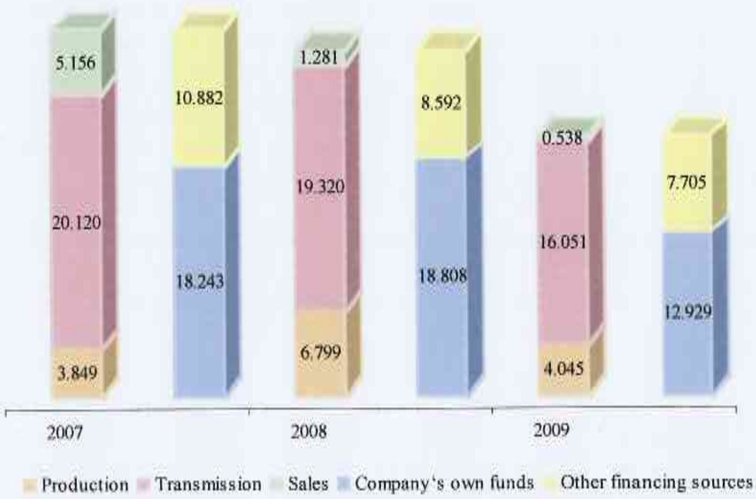


Already today it can be stated that the Group's investments into modern technologies (the automation of isolated and integrated network's boiler houses, automated consumer billing system, distant heat meters' data transfer and processing system, modern customer servicing system based on 'One Call' principle), 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.

During 2009, the Company invested LTL 20,634 thousand (LTL 7,705 thousand from which represent funds from other sources, i.e. loans of commercial banks, contributions of shareholders and financial support from the EU Structural Funds), from which LTL 119 thousand was allocated to connect 5 new consumers to the centralized heat supply networks with total capacity of 1.29 MW. During 2009, the invested funds were used to build new heat supply networks (0.34 km), and to reconstruct and repair the already existing heat supply networks (3,599 m). The Company's investments are illustrated in Chart 3.

Chart 3

Investment trends and sources in 2007-2009 (LTL million)



In 2009 the Company failed to implement the planned investment programme. The changes in investment amounts used by the Issuer during the period from 2007 to 2009 demonstrate local and global macroeconomic processes: the investment amount used by the company during 2007 was LTL 29.12 million, in 2008 the investment amount decreased to LTL 27.4 million due to economy deterioration processes, and in 2009 the investment amount used slightly exceeded LTL 20 million. Based on the provisions of legislation regulating the Company's operation, the Company's operating expenses are classified into heat generation, heat transmission and heat selling expenses, consequently, when implementing the investment programme, the investments are classified into those designated for heat generation (in which case the funds are allocated to the implementation of projects relating to new construction and reconstruction of production equipment and buildings), those designated for heat transfer (in which case the funds are allocated to the implementation of projects relating to new construction or reconstruction of heat supply networks, liquidation of collective heating substations, installation and replacement of heat meters, connection of new consumers), and those designated for heat sales (in which case the funds are allocated to the implementation of distant heat meters' data reading system, as well as to the implementation and updating of consumer billing and administration systems).

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

Economic factors. The Company enjoys 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, to further implement modern and efficient technologies, to provide 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 scope of 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	2006–2009 capacity,MW
Consumers' disconnections	4.199	1.917	2.374	1.95	10.44
Consumers' connections	22.921	11.58	11.82	1.29	47.611

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Company code 235014830
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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 organisation 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 Kauno Termofikacijos Elektrinė UAB (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 2009 – 1.95 MW) and choosing alternative heat sources (gas, electricity or other types of fuel). The choice of the fuel type is regulated by the *Procedure for Disconnection of Heat Consumers' Equipment from Heat Supply System and Change of the Manner of Indoor Heating*, which was approved by Kaunas City Council decision.

The Group's and the Company's management structure was subject to changes in 2009, which allowed to optimise and improve the effectiveness of the Company's operations.

The activity of the Group and the Company is cyclic. 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 realised heat volume, investment depreciation (amortisation) 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 effective 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 per cent, the latter may remain unchanged.

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 – 91.5 %, heavy fuel oil – 0.1 %, peat – 5.2 %, biogas – 1.1 %, wood residues (sawdust, cutting, cones – 2 %).

Repayment of bank loans: Detailed information is presented in the Kauno Energija Consolidated and the Parent Company's Financial Statements for the year 2009, Note 11. The Group and the Company repay loans to banks in due time.

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

In 2009, the Company did not manage to implement its activity programme because the expected performance results for 2009 were affected by decrease in sales revenue caused by reduced heat prices by 22 per cent and increased costs of debts of doubtful customers by LTL 6.5 million. The comparison of financial ratios for 2009 with the ones for 2008 and 2007 is given in Table 2 below.

Table 2

No.	Financial ratios	Company 2007	Group 2007	Company 2008	Group 2008	Company 2009	Group 2009
1	Net profitability, % (net profit /sales and services)*100	-5.1	-5.03	-2.1	-2.1	2.5	2.3
2	Return on tangible assets, % (net profit/average value of tangible assets)*100	-4.0	-4.1	-2.7	-2.6	2.9	2.7
3	Debt ratio (liabilities /assets)	0.41	0.41	0.52	0.53	0.32	0.33
4	Debt-to-equity ratio (liabilities / equity)	0.68	0.70	1.1	1.12	0.5	0.5
5	General liquidity ratio (short-term assets /short-term liabilities)	0.85	0.85	0.91	0.91	1.05	1.04
6	Asset turnover ratio (sales and services/ assets)	0.77	0.79	0.84	0.86	0.73	0.74
7	EBITDA (earnings before interest, taxes, depreciation and amortisation) LTL thousand	12,055	12,239	16,825	16,987	28,909	28,790
8	Gross profit margin (gross profit/sales and services)*100	-6.1	-6.0	-1.1	-1.4	3.8	3.7
9	Operating margin (operating profit/sales and services)*100	-6.1	-6.0	-1.1	-1.4	3.8	3.7
10	Return on equity (ROE) % (net profit/average equity)*100	-6.9	-7.1	-3.7	-3.7	3.7	3.5
11	Return on assets (ROA) % (net profit/ average assets)*100	-3.9	-4.0	-1.9	-1.9	2.2	2.1
12	Quick ratio((short-term assets-inventory)/short-term liabilities)	0.75	0.75	0.84	0.84	0.97	0.97
13	Cash ratio (cash in hand and at bank / short-term liabilities)	0.08	0.08	0.04	0.04	0.04	0.04
14	Net earnings per share (net profit/average weighted number of shares in issue)	-0.43	-0.43	-0.22	-0.21	0.24	0.22
15	Net profit, LTL thousand	-8,621	-8,626	-4,343	-4,235	6,928	6,404
16	Assets, LTL thousand	219,198	215,227**	244,782	240,520	384,012	379,746
17	Equity, LTL thousand	119,770	116,312	116,627	113,277	259,755	255,882
18	Equity per share, LTL	6.6	6.4	5.9	5.7	6.09	6.0
19	Revenue from sales and services, LTL thousand	168,003	169,528	205,233	205,974	279,548	280,411
19.1	Heat energy	162,017	162,017	201,793	201,760	277,053	277,001
19.2	Electric energy	2,694	2,694	506	506	393	393
19.3	Supervision of indoor heating and hot water supply systems, heating substation facilities	3,277	4,802	2,934	3,708	1,450	2,365
19.4	Income from emission permits and maintenance of collectors	15	15	-	-	652	652
20	P/E ratio (the last share market price of the year /(net profit/number of shares at year-end)	-8.01-	-8.0	-9.17	-9.41	10.18	11.01
21	Share capital, LTL thousand	118,310	118,310	119,510	119,510	255,710	255,710
22	Share capital-to-assets ratio	0.54	0.55	0.49	0.49	0.67	0.67
23	Return on equity (capital) (net profit/ capital and reserves)*100	-6.7	-6.7	-3.6	-3.5	2.7	2.5

* *decrease was caused by increased financial liabilities for the current year.*

** *the asset of the Group is less than that of the Company because of the elimination of LTL 4.5 million asset revaluation due to in-kind contribution to the subsidiary.*

Chart 4

The comparison of the Company's financial results for 2009 (sales revenue, operating profit, net profit) with those for 2008 back to 2005 is given in Chart 4.

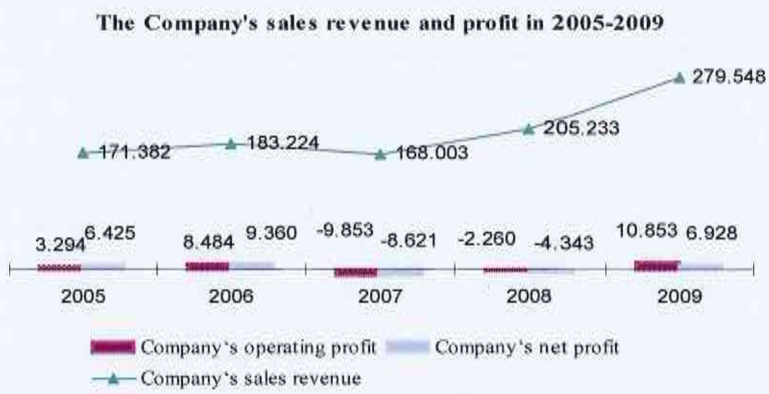


Chart 5

A more detailed analysis of the Group's and the Company's financial results is presented in the Notes to the Financial Statements for 2009.

The comparison of non-financial indicators for 2009 with the ones for 2008 and 2007 is given in Table 3 below.

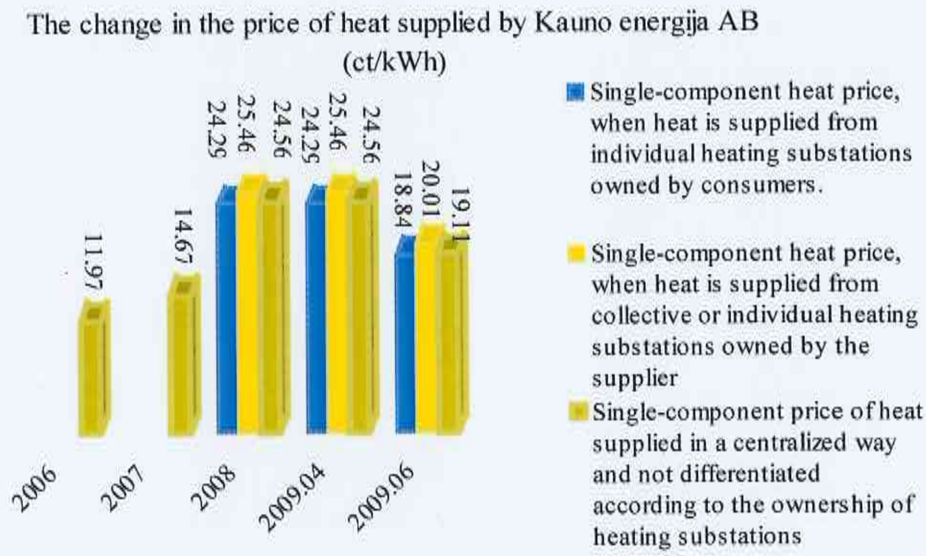
Table 3

No.	Non-financial indicators	Measure units	Company 2007	Group 2007	Company 2008	Group 2008	Company 2009	Group 2009
1.	Energy produced and purchased: from which supplied to the network	thousand MWh	1,710.1	1,710.1	1,631.2	1,631.2	1,601.8	1,601.8
1.1.	heat energy	thousand MWh	1,692.3	1,692.3	1,607.1	1,607.1	1,578.7	1,578.7
1.2.	electric energy	thousand MWh	17.8	17.8	2.3	2.3	1.3	1.3
2.	Energy sold	thousand MWh	1,340.3	1,340.1	1,280.7	1,280.5	1,255.7	1,255.7
2.1.	heat energy	thousand MWh	1,324.4	1,324.2	1,278.4	1,278.2	1,254.4	1,254.4
2.2.	electric energy	thousand MWh	15.9	15.9	2.3	2.3	1.3	1.3
3.	Heat supply networks reconstructed	m	3,793	3,793	5,068	5,068	3,599	3,599
4.	Heat supply networks newly constructed	m	2,090	2,090	1,861	1,861	340	340
5	Maintenance of indoor heating and hot water supply systems (area maintained)	m2	1,237,498	1,893,839	898,465	1,133,182	249,823	896,276

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

The change in the prices of heat supplied by the Company during 2006 to 2009 is demonstrated in Chart 6.

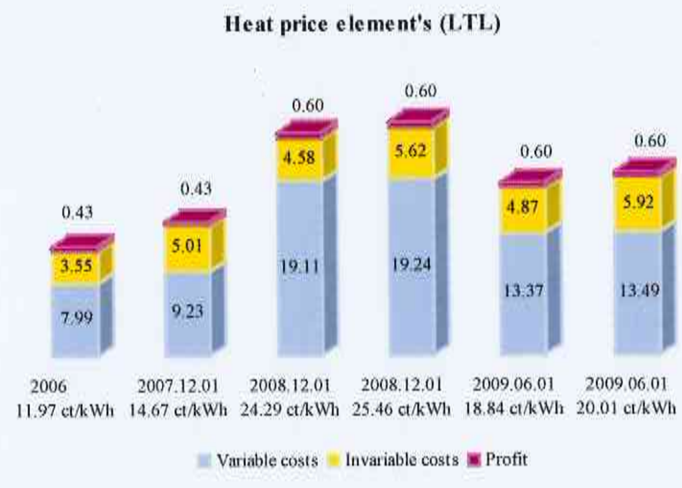
Chart 6



The elements of heat price sold during 2006 to 2009 are given in Chart 7.

Chart 7

The average heat price purchased by the Company in 2009 increased by 4.78 cents (61 per cent) as compared to 2008, and was equal to 12.57 cents/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.

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Raudondvario Rd. 84, 47179 Kaunas, Lithuania

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 licences. During 2009, the Group and the Company transferred for recycling 322 tones of mixed household waste, 0.289 tones of mercury lamps, 0.23 tones of electric and electronic equipment waste, 2.24 tones of heavy fuel oil and diesel waste, 66.16 tons of scrap, 0.06 tons of lead batteries, and 2.56 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 Ežerėlio, Girionių and Noreikiškių boiler-houses to reduce atmosphere pollution. Table 4 below contains the comparison of quantities of pollutants released to atmosphere from the Company's stationary air pollution sources during 2009, 2008, and 2007.

Table 4

Type of pollutant	Solid parti-culate matters	Nitrogen oxides	Carbon monoxide	Sulphur dioxide	Hydro-carbon	Vanadium pentoxide	Other
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
Emitted in 2007, t	12.314	75.937	218.854	22.692	28.335	0.053	0.440

The cyclones were erected at Ežerėlio and Girionių 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 Petrašiūnų Power Station, Pergalės boiler-house, Šilko boiler-house, Garliavos boiler-house, Noreikiškių 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 2009.

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 2009 is carried out by independent audit company. During the extraordinary shareholders meeting held on 23 July 2009, PricewaterhouseCoopers UAB was elected to carry out the audit of economic-financial activities of Kauno Energija AB (hereinafter – the audit) (the audit company's certificate No.111473315, address: J. Jasinskio 16B, LT – 01112 Vilnius).

The audit for the year 2009 was completed on 31 March 2010. It was carried out by the auditor Jurgita Kirvaitienė (auditor's licence No 000447). The audited financial statements for the year 2009 and independent auditor's report thereon are presented together with this Annual Report of the Company.

During the Company's extraordinary general shareholders' meeting on 17 February 2010, the decision was made to increase the Company's authorised share capital by LTL 681,570 (from LTL 255,710,292 to LTL 256,391,862) by way of issuing new 113,595 ordinary registered shares with the nominal value of LTL 6 each and with the issue price equal to the nominal value. Payment for these newly issued shares was made in the form of the following contributions in kind: a building (boiler-house) owned by Kaunas city municipality, location address: Jonavos g. 178, Kaunas, unique No. 1997-2006-0022; and engineering networks owned by Jurbarkas district municipality, heat route with drainage located at Mokyklos, Birutės, V. Kudirkos streets in Jurbarkas, unique No. 4400-0500-5569; and pipelines for heat supply, unique No. 9400-0000-9013. The increase in authorised share capital was registered on 26 March 2010.

On 17 February 2010, Vilnius Commercial Arbitrage Court completed the investigation of a civil case No. 162 (in relation to the performance of Arrangement on Investments) and awarded a fine of LTL 5,419,808.82 (five million, four hundred and nineteen thousand, eight hundred and eight litas, 82 cents) to be paid to the claimant Kauno Energija AB by the respondent Kauno Termofikacijos Elektrinė UAB, as well as interest on late payment as prescribed by laws, and compensation of a part of litigation costs. In the same civil case, a counterclaim submitted by the respondent Kauno Termofikacijos Elektrinė UAB to the claimant Kauno Energija AB was denied. The decision of the Arbitrage Court is final in this case.

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 2010, there are plans to continue with 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 programme for the year 2010 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 2010 is planned for the reconstruction and repair of heat supply networks, laying of new networks, closing of collective heating substations. In 2009 the Company signed agreements on financial support from structural funds, and the following projects will be implemented during 2009 to 2011: (i) Renewal of Kaunas city heat supply networks by implementing modern technologies (reconstruction of heat supply networks at V. Krėvės ave. 82 A.118 H, Kaunas) unique No. 1997-2035-2018, the second stage. The total amount of investments is LTL 13.12 million, the EU's financial support contracted for LTL 6 million; (ii)

Development of district heating by building a new heat route (heat supply networks from A. Juozapavičiaus ave. 23A up to A. Juozapavičiaus ave. 90). The total amount of investments is LTL 3.4 million, financial support expected from the EU amounts to LTL 1.6 million; (iii) 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. The total amount of investments is LTL 5.08 million, the EU's financial support contracted for LTL 2.33 million; (iv) 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 6 million; (v) Reconstruction of Kaunas city integrated network Žaliakalnis main (4Ž). The project value amounts to LTL 6 million, financial support expected from the EU amounts to LTL 2.8 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 2010 will involve: further modernisation of boiler-houses owned by the Company, by the way of 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. 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.

It is planned that the Group's sales revenue and quantity of heat sold to consumers in 2010 will remain at the similar level as compared to 2009. 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. Moreover, it is planned to reduce selling expenses. The Group's profit is expected to increase by 5 per cent as compared to 2009, 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 Kauno Energija AB 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 Kauno Energija AB Technical and Economic Condition* prepared by Energetikos Linijos UAB, as well as in a study on the *Assessment of Kauno Energija AB Financial Condition and Structure, and Recommendations for Further Development* prepared by Savvin UAB.

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

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

(number and nominal value of the parent company's shares owned by the company, its subsidiaries or persons acting by proxy, but in their own name)

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 2.7, 2.8, 21, and 24 to the financial statements for the year 2009.

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 Lietuvos Dujos AB implemented the provisions of the Agreement signed in 2006 by Lietuvos Dujos AB, 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 2009, the Company's branch office Jurbarko Šilumos Tinklai had 39 employees.

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

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

The subsidiary Pastatų Priežiūros Paslaugos UAB 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 2009, the Company's subsidiary had 70 employees.

15. Structure of authorised share capital

The authorised share capital of Kauno Energija AB registered with the Lithuanian Register of Enterprises amounted to LTL 255,710,292 as at 31 December 2009.

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	42,618,382	6	255,710,292	98.33	1.67
Total:	42,618,382	-	255,710,292	98.33	1.67

16. Data on shares issued by the Issuer

Authorised share capital registered on 6 August 2009 amounted to LTL 255,710,292 (two hundred and fifty-five million, seven hundred and ten thousand, two hundred and ninety-two litas) and was divided into 42,618,382 (forty-two million, six hundred and eighteen thousand, three hundred and eighty-two) ordinary registered shares with nominal value of LTL 6 each.

No restrictions exist in respect of transfer of securities.

16.1. Key data of shares in issue for public trading (as at 31 December 2009)

Securities registration NO. A01031430
Number of shares 42,618,382 ordinary registered shares
Nominal value LTL 6
Total nominal value of shares LTL 255,710,292
Trading history of the Company's securities is presented in Table 6.

Table 6

Trading history data	2005	2006	2007	2008	2009
Open (LTL)	1.96	4.18	4.58	3.50	2.00
Highest (LTL)	6.30	4.67	4.95	3.80	2.65
Lowest (LTL)	2.01	3.05	3.10	1.70	1.41
Last (LTL)	4.18	4.30	3.50	2.00	2.40
Traded , units	870,151	183,008	138,163	82,775	92,418
Turnover (LTL million)	4.19	0.70	0.55	0.26	0.19
Capitalisation (LTL million)	79.29	81.56	66.39	37.94	102.28

Historical data on share prices and turnovers during 2007 to 2009 is illustrated in Chart 8.

Chart 8

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

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

Charter 9

Chart 9 data:

Index/shares	1 Jan 2007	1 Jan 2010	+/-%
OMX Vilnius	492.65	261.77	-46.86
OMX Baltic Utilities GI	1,014.75	611.74	-39.72
KNR1L	LTL 4.30	LTL 2.40	-44.19

17. Information on the Issuer's shareholders

As of 31 December 2009, the total number of shareholders of Kauno Energija AB was 365.

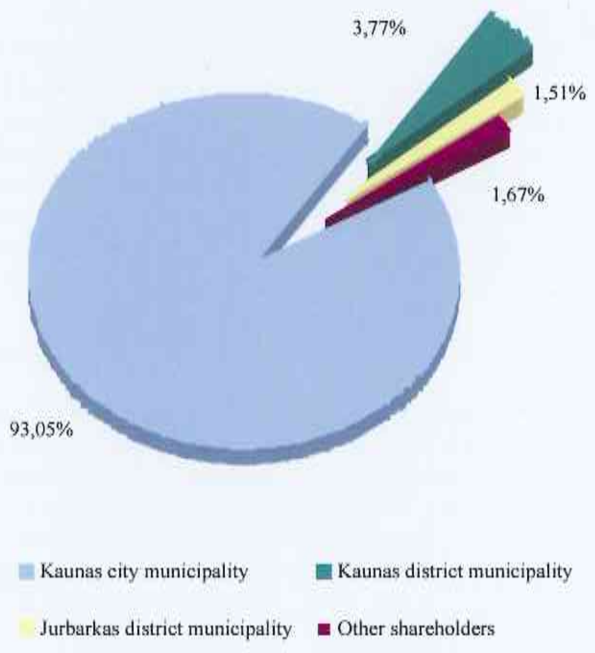
The Issuer's shareholders, whose ownership interest as at 31 December 2009 exceeded 1.5 % of the Company's authorized share capital (42,618,382 ordinary registered shares) registered on 6 August 2009, are listed in Table 7 with additional data illustrated in Chart 10.

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	39,654,892	93.05	93.05	-
Kaunas district municipality Savanorių Ave. 371, 49500 Kaunas Company code 111100622	1,606,168	3.77	3.77	-
Other minority shareholders	713,512	1.67	1.67	-
Jurbarkas district municipality Dariaus ir Girėno Str. 96, 74187 Jurbarkas Company code 111106276	643,810	1.51	1.51	-
Total	42,618,382	100	100	-

Chart 10

Shareholders structure as at 31 December 2009



17.1. The shareholders, whose ownership interest as at 31 December 2009 exceeded 5 % of the Company's shares (42,618,382 ordinary registered shares) issued for public trading (registration No. A01031430), are listed in Table 8.

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 42,618,382.

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.

Since the establishment of the Issuer, no dividends have been allotted or paid out.

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 (%)
Kaunas city municipality Laisvės 96, 3000 Kaunas Company code 111106319	Ordinary registered shares	39,654,892	237,929,352	93.05	93.05
Other shareholders	Ordinary registered shares	2,963,490	17,780,940	6.95	6.95
TOTAL		42,618,382	255,710,292	100	100

18. Employees

As of 31 December 2009, the Group had 601 employees. The change of the employees' number in 2008 is presented in Table 9. The change in the number of employees during 2007 to 2009 is illustrated in Table 9.

Table 9

Number of employees on payroll	Company 31 12 2007	Group 31 12 2007	Company 31 12 2008	Group 31 12 2008	Company 31 12 2009	Group 31 12 2009
Total:	615	705	598	654	531	601
managers	4	9	4	6	4	6
specialists	294	319	295	314	275	301
workers	317	377	299	334	252	294

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.

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

Table 10

No.	Education level	Company 31 12 2007	Group 31 12 2007	Company 31 12 2008	Group 31 12 2008	Company 31 12 2009	Group 31 12 2009
1	Secondary (unfinished)	24	30	23	27	13	15
2	Secondary	253	290	241	270	207	248
3	Post-secondary	114	135	105	110	86	92
4	Higher	224	250	229	247	225	246
	Total:	615	705	598	654	531	601

Average relative number of employees and average monthly salary (including taxes at the end of 2009)

Table 11

No.	Employees	Company	Group
1.1.	Average relative number of managers	4	5.4
1.2.	Average monthly salary of managers	7,033.4	6,670.4
2.1.	Average relative number of specialists	269.8	288.5
2.2.	Average monthly salary of specialists	2,677.43	2,653.3
3.1.	Average relative number of workers	268.7	304.2
3.2.	Average monthly salary of workers	1,886.1	1,854.2

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:

1. 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.

2. 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 per cent 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 per cent 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 per cent 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 per cent 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 honoured 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 authorised 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 authorised representatives who signed the Collective Employment Agreement.

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

Articles of Association of Kauno Energija AB provide for that 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 2009
During the extraordinary general meeting of shareholders held on 23 July 2009, the Company's authorised 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 6 August 2009. It is available on the Company's website at address: 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 Kauno Energija AB 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, Kauno Energija AB senior economist of the Economy Group). The audit committee carries out the functions set forth in Article 52 of the Lithuanian Law on Audit.

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.

The General Manager is the manager of the Company. The manager of the Company is a one-man managerial body of the Company who organises 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 authorised 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 2009, 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. Jadzė 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 Gudišauskienė	Supervisory Board member	28 April 2009	30 April 2011
Ms. Orinta Leiputė	Supervisory Board member	28 April 2009	30 April 2011
Mr. Arvydas Padegimas	Supervisory Board member	28 April 2009	30 April 2011

Based on the decision of the extraordinary General Meeting of Shareholders held on 28 April 2009, three members of the Supervisory Board were recalled:

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Bronislovas Kučinskas	Supervisory Board member	30 July 2007	28 April 2009
Mr. Pranas Paškevičius	Supervisory Board member	30 July 2007	28 April 2009
Mr. Rimas Antanas Ručys	Supervisory Board member	30 July 2007	28 April 2009

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 2009, 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 per cent of their share capital and votes.

Mrs. Jadzė 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 Gudišauskienė. Kaunas City Municipality, Mayor's Adviser. Member of Kaunas City Municipality Council, Chairwoman of the Committee of Budget and Finance, member of the Commission for Privatisation, Member of the Commission for Engineless Transport, Member of the Management Board of Kauno Laisvosios Ekonominės Zonos Valdymas UAB, Member of the Company's Supervisory Board. Chairman of Kaunas City Non-governmental Organisations Support Council. Member of the Management Board of Lampėdžių Community Centre. Mrs. Gudišauskienė has no shares of the Company, nor any ownership interest in other companies.

Ms. Orinta Leiputė. Member of Kaunas City Municipality Council, Member of the Committee for Development of Culture, Communities and Self-governance. Assistant-secretary for the member of the Lithuanian Seimas Ms. B.Vėsaitė. Assistant at the Lithuanian Academy of Physical Education. Member of the Lithuanian Society of Young Researchers. Lithuanian Social Democratic Party, member of the Council, Presidium, Chairwoman of LSDP 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.

Mr. Arvydas Padegimas. Member of Kaunas City Municipality Council, odontologist at Garliava PSPC UAB Maksvilė. 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 Anti-corruption Commission. Member of Member of the Committee for Development of Culture, Communities and Self-governance. Teacher at Vilnius Art Academy, Kaunas Faculty. Member of the Lithuanian Artist Union, Member of the Lithuanian Association of Art. 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. Chief-engineer at Kauno Vandenys UAB. Chairman of Panemunė Community Center. Mr. Žukauskas has no shares of the Company, nor any ownership interest in other companies.

Mr. Bronislovas Kučinskas. Member of the Company's Supervisory Board until 28 April 2009. Member of Kaunas City Municipality Council, Member of the Committee of City Economy and Energy, Member of the Committee of Control. Director of Vilnius University's public institution Regioninių Projektų Valdymo Centras (Regional projects management centre). Mr. Kučinskas has no shares of the Company, nor any ownership interest in other companies.

Mr. Rimas Antanas Ručys. Member of the Company's Supervisory Board until 28 April 2009. Member of the Lithuanian Seimas, Member of the Committees for Health and European Affairs, Member of the Committee for Youth Affairs and Sports. Mr. Ručys has no shares of the Company. He has shares in Rusenta UAB, Stumbras AB and Biofuture AB.

Mr. Pranas Paškevičius. Member of the Company's Supervisory Board until 28 April 2009. Member of Kaunas City Municipality Council. Member of the Committee for Development of Culture, Communities and Self-governance. Member of the Committee of Control. Deputy Director at Neogena UAB. Mr. Paškevičius has no shares of the Company. Responsible Secretary of the Lithuanian Movement "Černobilis". Mr. Paškevičius has shares in Siroma UAB, Neogena UAB, and Nida UAB.

During the reporting period, no remuneration amounts (salary, bonuses) were estimated, 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 2009, 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 Ušpuras	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 31 March 2009, the member of the Company's Management Board Mr. Mantas Raila, who resigned with effect from 27 January 2009, was replaced with the newly elected member of the Management Board Mr. Kęstutis Miškinis.

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 46 thousand (salary) was estimated to the member of the Management Board, however, no bonuses were estimated, 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. From 1 August 2008 to 30 January 2009, advisor of the Company's General Manager for strategy issues. 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, remuneration amounting to LTL 11 thousand (salary) was estimated to the member of the Management Board, however, no bonuses were estimated, nor any assets were transferred or guarantees issued.

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 estimated, 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 estimated, 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 estimated, 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 Seimas Mr. H. Žukauskas; Kauno Vandenys UAB, engineer-supervisor. Mr. Marcalis has no shares of the Company, nor any ownership interest in other companies.
During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued to this member of the Management Board.

Mr. Kęstutis Miškinis. Graduated from Kaunas University of Technology, Electrical and Control Engineering Faculty, master's degree. Jungtis UAB, security man. Mr. Miškinis has no shares of the Company, nor any ownership interest in other companies.

Mr. Mantas Raila. RP Reklama UAB, Director. Chairman of the Lithuanian Windsurfers Association. The member of the Company's Management Board until 27 January 2009. Mr. Raila has 50 shares in RP Reklama UAB, which represent 50 per cent of share votes. He has no shares of the Company.
During the reporting period, no remuneration (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued to this member of the Management Board.

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

Mr. Rimantas Bakas. Doctor of Engineering. General Manager of the Company since 24 November 2008. Education: higher, university degree, graduated from Kaunas University of Technology in 1985, industry heat energy engineer. Work record during the last 10 years and job positions held: from January 1999 to February 2001, Terma ir KO UAB (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, nor ownership interest in of other companies.

Mrs. Violeta Staškūnienė. Chief Financier of the Company since 27 July 2000, and chief accountant since 16 January 2003. Education: higher, university degree, graduated from Vilnius University in 1984, work economy, acquired the profession of economist. Work record during the last 10 years and job positions held: 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 authorised share capital. She has no ownership interest in other companies.

During 2009, total remuneration estimated for the General Manager and Chief Accountant amounted to LTL 210 thousand, average amount per person – LTL 105 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
Resolution passed by Vilnius Commercial Arbitrage Court	Announcement of significant event		2010-03-03 13:26:30 EET
Performance results for 12 months of the year 2009	Interim information	En, Lt	2010-02-18 13:47:30 EET
Decisions made at Kauno Energija AB extraordinary General Meeting of Shareholders	Announcement of significant event	En, Lt	2010-02-18 09:46:30 EET
Calling of extraordinary General Meeting of Shareholders of Kauno Energija AB, and draft decisions	Announcement of significant event	En, Lt	2010-01-22 14:17:30 EET
Application of heat price supplied by Kauno Energija AB, with effect from 1 February 2010	Announcement of significant event	En, Lt	2010-01-22 11:54:30 EET
Operation results for 3 quarters of the year 2009	Interim information	En, Lt	2009-10-30 16:21:30 EET
Interim information for 6 months and information on the newly registered version of the Articles of Association of Kauno Energija AB	Interim information	En, Lt	2009-08-07 15:56:30 EEST
Decisions made at extraordinary General Meeting of Shareholders of Kauno Energija AB, and operation results for the 1st quarter of 2009	Announcement of significant event	En, Lt	2009-07-23 15:50:30 EEST
Revision of draft decisions made at extraordinary General Meeting of Shareholders of Kauno Energija AB	Announcement of significant event	En, Lt	2009-07-09 10:04:30 EEST
Supplemented annual report	Annual information	En, Lt	2009-07-09 09:58:30 EEST
Calling of extraordinary General Meeting of Shareholders of Kauno Energija AB, and draft decisions	Announcement of significant event	En, Lt	2009-06-22 09:56:30 EEST
Setting and application of heat price supplied by Kauno Energija AB	Announcement of significant event	En, Lt	2009-06-01 16:58:30 EEST
Annual report and financial statements	Annual information	En, Lt	2009-05-06 16:54:30 EEST

Heading of announcement	Category of announcement	Language	Time
Annual report and financial statements	Annual information	En, Lt	2009-04-28 16:58:30 EEST
Decisions made at ordinary General Meeting of Shareholders of Kauno Energija AB, and operation results for the 1st quarter of 2009	Announcement of significant event	En, Lt	2009-04-28 16:54:30 EEST
Changes in agenda of ordinary General Meeting of Shareholders of Kauno Energija AB	Announcement of significant event	En, Lt	2009-04-15 17:03:30 EEST
Information on election of the member of managerial body	Announcement of significant event	En, Lt	2009-04-01 16:15:30 EEST
Calling of ordinary General Meeting of Shareholders of Kauno Energija AB, and draft decisions	Announcement of significant event	En, Lt	2009-03-25 16:02:30 EET
Preliminary operation results of Kauno Energija AB for the year 2008	Interim information	En, Lt	2009-01-30 12:02:30 EET
Information on resignation of the member of managerial body	Announcement of significant event	En, Lt	2009-01-13 16:59:30 EET

Kauno Energija AB General Manager Rimantas Bakas

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

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

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	No	The Company prepares and revises the strategy of production every year. The provisions of the Company's strategy which contains no confidential information and the decisions-making process, as well as the Company's development policies and objectives of the years 2008 and 2009 are published in the annual reports and company's website. Periodic reports and notifications are disclosing the directions for Company's growth. Those reports and notifications are presented by the Company's managers and are published in press.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's board has also created a long-term and short-term Company's development strategic objectives. The management of the Company, the heads of the areas concerned are making their every effort in order to implement those objectives – the structure of the Company and of the subdivision of the Group is optimised.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Supervisory Board and the Management Board are formed. The Management Board adopts the strategic decisions and approves Company's business strategy. All the bodies of the Company (Manager, the Management board and the Supervisory board) aim to implement this recommendation, mutual meetings of the Management board and the Supervisory board are held.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's supervisory and managing bodies aim to ensure all interests of the persons concerned. The Company's management and the separate areas managers spend a lot of time communicating with customers, suppliers, representatives of the municipality, in order to find the best available solutions. The specific of the Company ensures that consumers (customers) are periodically invited to attend meetings where the relevant issues related to the activity of the Company are discussed.

Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The General Meeting of Shareholders and the Company's general manager are compulsory management bodies of the Company set by the Law on Joint Stock Companies of the Republic of Lithuania. The collegial supervisory body - the Supervisory Board and the collegial management body – the Management Board are also being formed.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	A collegial management body of the Company – the Management Board is responsible for the strategic management of the Company and also performs other key functions of the Company management. A collegial supervisory body – the Supervisory Board is responsible for the effective supervision of activities of the Company's managing bodies.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	The Supervisory Board and the Management Board is being formed.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes	The Supervisory Board of the Company is elected and it acts partly in compliance with the principles III and IV set out in the procedures and basic principles for the requirements are not violated.

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

2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	According to the Statute of the Company the Supervisory Board of 7 (seven) members is elected and the Supervisory Board elects the Management Board. It also is formed of 7 (seven) members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Supervisory Board of the Company is elected for the 4 (four) years and according to the Statute of the Company and to the practice it is not forbidden to re-elect the members of the Supervisory Board for the new term.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of the Company's Supervisory Board hasn't been the General Manager of the Company.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.[3]**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The mechanism of forming of the Supervisory Board, which corresponds to the requirements of the Law on Joint Stock Companies of the Republic of Lithuania, ensures the objective supervision of the collegial body.

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

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

3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	In the work regulations of the Supervisory Board it is foreseen that every member of the body has to inform the Chairman of the Supervisory Board about his data change and this data is presented in the Company's annual report. Information about the candidates to the members of the Supervisory Board can be disclosed to the shareholders before the general meeting of shareholders.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Not applicable	The shareholders of the Company by offering candidates for the collegial body must ensure that these members have the required competence. The Company publishes only the information which is provided by the members of the collegial body and which is presented in the annual report (data on participation of the issuer's statute capital, data on participation in other undertakings, bodies and organisations (company, institution or organization name and title), information on more than 5 % of other companies' capital and votes, in %).
3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	No	The Company does not make any influence on the composition of the collegial body because the candidates to the members of the collegial body are offered by the main shareholder. The periodical evaluation of the members of the collegial body is not implemented.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	Up to now in the practice of the Company all new members of the Supervisory Board were introduced to the Company and its activity were introduced jointly and there were no any annual verification of the members of Supervisory Board, as there was no such need.

3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	No	The Company does not make any influence on the composition of the collegial body because the candidates to the members of the Company's collegial body are offered by the main shareholder. Because of that reason we didn't followed the recommendations.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[6] number of independent[7] members.	No	The Company does not make any influence on the composition of the collegial body because the candidates to the members of the Company's collegial body are offered by the main shareholder. Because of that reason we didn't followed the recommendations.

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

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

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

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

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or	No	The Company does not follow this recommendation because the majority of the Supervisory Board members (six members) represent the controlling shareholder (the members of the board of the Kaunas municipality) having 93.05 % of votes.

service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	Up to now there was no practice of independence consideration of the Supervisory board members and announcement. In the future the Company will strive to realize this provision.

3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	Up to now in the practice of the Company there was no evaluation of independence of the members of Supervisory Board and that is why there was no practice for the independent members to approve regularly their independence. In the future the Company will strive to realize this provision.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[8]. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	The members of the Supervisory Board are not remunerated from the Company's funds. So, this provision is not relevant for the Company.

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[9] of the company's management bodies and protection of interests of all the company's shareholders.

4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[10]	Yes	The Supervisory Board presents to the general shareholders meeting their opinions and proposals about the set of the Company's annual financial statements, profit allocation project, the Company's annual report, the activity of the Company's general manager and the Management Board, and also carries out other functions allotted to the Supervisory Board competence regarding the Company's and it's managing bodies activity supervision. The Chairman of the Supervisory Board regularly meets the Chairman of the Management Board and the General Manager to discuss the events or changes of the Company that have taken place, also the essential questions of the Company's activity.

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

[9] See Footnote 3.

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

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the knowledge of the Company all the members of the Supervisory Board are acting in good faith in the interests of the Company following the Company's but not the own interests or interests of the third persons.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[11] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The members of the Company's Supervisory Board devote enough time and pay enough attention individually and collectively for the functions assigned to the competence of the Supervisory Board to carry properly.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's Supervisory Board in its work aim to behave honestly and impartially with all of the Company's shareholders and by the knowledge of the Company, there was no such kind of the contrary case. The Chairman of the Company's Supervisory Board and the Chairman of the Management Board communicate with shareholders, inform the shareholders about the Company's strategy, activity and other essential questions in the name of Company's Supervisory and Management Boards and in co-administration and intercommunication with General Manager.

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

4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[12]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.	No	Six members of the Company's Supervisory Board are representatives of the main shareholder – members of the Kaunas City Council. According to the opinion of the Company the collegial management body and the Audit Committee are provided by the sufficient resources, including their right to get all the necessary information, especially from the employees of the Company. Salary committee is not set up in the Company because the salaries of the managers of the Company, their deputies and of the chief accountant are determined according to the schedule approved by Kaunas municipality used in the municipality enterprises.

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

4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[13]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No	There was no committee's formation practice in the Company up to the year 2009. But on March 31, 2009 the Supervisory Board formed an Audit Committee which has three members. The Nomination and the Remuneration Committees are not formed in the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No. 4.6. In the future, the Company will seek to implement this provision.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	Audit committee is formed in the Company. One member of this Committee is independent. The Committee acts independently and principally.

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

4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Audit Committee of three members is formed in the Company. Term of office of this Committee coincides with the term of office of the Company's Supervisory Board.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6. Other recommended disclosures are also not published in this annual report. The Company will seek to implement this provision in the future.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6. The Company will seek to implement this provision in the future.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	The Committee of Remuneration is not formed according to the circumstances shown in the article No 4.6.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the	Not applicable	The Committee of Remuneration is not formed according to the circumstances shown in the article No 4.6.

performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; • Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		

4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.	Yes	The Audit Committee which would be obligated to carry out functions allotted to for the Audit Committee was not formed at the Company up to the year 2009. But on 31 March 2009 the Audit Committee of three members was formed by the Supervisory Board. Term of office of this committee coincide with the term of office of the Company's Supervisory Board. This committee will seek to fully implement functions assigned to it by this recommendation.

4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its		

activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	There was no practice of assessment of the activity of Supervisory Board at the Company and of informing shareholders about that up to now because the controlling shareholder who proposes candidates to the Supervisory Board exhaustively knows the experiences and competences of each member. The Company will seek to implement this provision in the future.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the	Yes	The Company fully implements this recommendation. The Company's Supervisory Board and Management Board are run by the Chairman de jure and de facto. In accordance with the work regulations of the Supervisory Board the Chairman convokes meetings of the Supervisory Board, organises the work of the Supervisory Board. This recommendation is implemented by the Supervisory Board and by the Management Board.

collegial body. The chairperson should ensure order and working atmosphere during the meeting.		
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[14].	Yes	This recommendation is implemented by the Supervisory Board and by the Management Board.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The company follows the order foreseen in the work regulations of the Supervisory Board and the Management Board and the information about the convened meeting is presented in advance together with all the information related to the meeting agenda.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	

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

Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The ordinary registered shares which make the authorized capital of the Company give the equal rights for all share owners.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[15] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	In compliance with the Law on the Joint Stock Companies and the Company's statutes the transactions confirmation issues foreseen in this recommendation are ascribed to the competence of the Management Board but in individual cases for the asset disposal transactions the Company applies to the shareholders meeting.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	There is a possibility for shareholders to vote in advance by filling up a general vote bulletin.

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

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

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

Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	Not applicable	The Company does not announce the report on the Company's remuneration policy. The remuneration policy as provided in this recommendation is not confirmed in the Company because this is not demanded by the legal acts. The remuneration for the Supervisory Board and the Management Board of the Company is determined by the shareholders meeting and there were no payments up to now. The remuneration of the managing director is determined by the Management Board in compliance with the Lithuanian Republic Government decision "For the state enterprises and joint stock, closed-end companies controlled by the state administration managers, their deputies and chief accountants' remuneration". According to this there was no need to prepare separate remuneration policy. Nevertheless in compliance with the legal acts orders, the Company publicly announces the information on the termination payments and loans for the members of the Supervisory Board, the Management Board and administration (General Manager, Chief accountant) in the annual report.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • An explanation how the choice of performance criteria contributes to the long-term interests of the company; • An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; • Sufficient information on deferment periods with	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.

regard to variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • Sufficient information on the policy regarding termination payments; • Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; • Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; • Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; • A description of the main characteristics of supplementary pension or early retirement schemes for directors; • Remuneration statement should not include commercially sensitive information.		
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company, but the information on the termination and other payments is publicly announced in the Company's annual report.
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.

remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial **report** of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would

8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.		be prepared is not approved by the Company.
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.		
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.		
8.11. Termination payments should not be paid if the termination is due to inadequate performance		
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.		
8.13. Shares should not vest for at least three years after their award.		
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.		
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).		
8.16. Remuneration of non-executive or supervisory directors should not include share options.		
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.

8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company. Nevertheless, the Company publishes information on the remuneration of the members of the Supervisory Board, Management Board, General Manager, his deputies and to the chief accountant in it's annual reports in accordance with the legislation. The Company does not use schemes under which the directors can be paid with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the Company does not use schemes under which the directors can be remunerated with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		

8.22. Provisions of Articles **8.19** and **8.20** should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article **8.19**, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company follows all the requirements foreseen by the laws for the stakeholders' opportunities to participate in the management of the Company, but at this moment no stakeholders group, having the right determined by the laws to participate in the management of the Company, are created by the order determined in the law.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		

9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		

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

10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the	Yes	Information, provided in this recommendation, Company announces through the Stock Exchange NASDAQ OMX, Vilnius information dissemination system and places it on the Company's website, in the daily determined by Company statutes, except the report of remuneration policy determined in VIII principle. This report is not prepared in the Company because of the reasons foreseen in the article No. 8.1., and it is not approved, as it is not required by the law. The remuneration for the members of the Company's Supervisory Board and of the Management Board is determined by the shareholders meeting, but it has not yet been assigned up to now (all of this is described in detail in annotation of VIII recommendations).

links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company simultaneously presents the information through the Stock Exchange NASDAQ OMX, Vilnius information dissemination system in Lithuanian and English languages as it possible. The Stock Exchange places received information on its website and in trading system assuring simultaneous presentation of this information to all. In addition, the Company strives to announce the information before or after a trading session on the Vilnius Stock Exchange and to present it to all the markets in which there is trade in the Company's stocks at the same time. The Company does not provide the information which can have an influence on the price of its issued stocks on comments, interview and other ways till this information is publicly announced through the Stock Exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Company's information is published on its website in Lithuanian.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	All the information provided in this recommendation is placed on the Company's website, except the information on the changes in the price of the Company's shares on the Stock Exchange because this information is publicly placed on the Stock Exchange NASDAQ OMX, Vilnius, website and it can be reached by all the interested persons.

Principle XI: The selection of the company's auditor The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements	Yes	The set of annual financial statements and the annual report of the Company is verified by the independent audit company.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The candidature of the Company's audit company for the shareholders meeting if offered by the Management board in compliance with the results of the public competition.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The information provided in the recommendation was not presented to the shareholders because the audit company did not provide non-audit services for the Company in the year 2009.