



JOINT STOCK COMPANY „KAUNO ENERGIJA“

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

2010-04-30 Nr. 20-2096

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

CONFIRMATION FROM RESPONSIBLE PERSONS

Following the guidelines of 22 article of the Law on Securities Market of the Republic of Lithuania and Lithuanian Securities Commission periodical and additional information preparation and presentation regulations, we General Manager Rimantas Bakas and Chief Accountant Violeta Staškūnienė JSC „Kauno energija“ approve, that according to our knowledge the JSC „Kauno energija“ interim financial reporting of the first quarters of the year 2010 is prepared according to the International Financial Reporting Standards, generally accredited in European Union, satisfies actuality and correct indicate assets, liabilities, financial position and profit for time period of the enterprise.

ENCLOSING: JSC „Kauno energija“ consolidated and company's financial statements for the first quarters of the year 2010, prepared according to the International Financial Reporting Standards as adopted by the European union, 31 pages.

Yours respectfully

General Manager

Rimantas Bakas

Chief Accountant

Violeta Staškūnienė

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AB KAUNO ENERGIJA

**SET OF CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR THE FIRST QUARTER 2010
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS AS
ADOPTED BY THE EUROPEAN UNION**

Balance Sheets

	Notes	Group		Company	
		As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
ASSETS					
Non-current assets					
Intangible assets	3	1.072	1.242	1.054	1.222
Property, plant and equipment	4				
Land and buildings		29.308	29.539	27.795	28.012
Structures and machinery	1	251.146	251.902	251.120	251.873
Vehicles		575	652	464	526
Equipment and tools		5.716	6.475	5.652	6.404
Construction in progress and prepayments		15.607	16.134	15.607	16.134
Total property, plant and equipment		302.352	304.702	300.638	302.949
Deferred tax asset	22	-	-	-	-
Non-current financial assets					
Investments into subsidiaries	1	-	-	6.053	6.053
Non-current accounts receivable	5	61	61	250	109
Other financial assets	6	433	433	433	433
Total non-current financial assets		494	494	6.736	6.595
Total non-current assets		303.918	306.438	308.428	310.766
Current assets					
Inventories and prepayments					
Inventories	7	5.341	5.372	5.201	5.226
Prepayments		311	616	448	766
Total inventories and prepayments		5.652	5.988	5.649	5.992
Current accounts receivable	8				
Trade receivables		82.571	59.828	82.342	59.513
Other receivables		8.328	4.361	8.464	4.647
Total accounts receivable		90.899	64.189	90.806	64.160
Cash and cash equivalents	9	3.998	3.131	3.952	3.094
Total current assets		100.549	73.308	100.407	73.246
Total assets		404.467	379.746	408.835	384.012


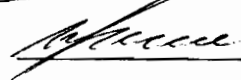
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The accompanying notes are an integral part of these financial statements.

Balance Sheets (cont'd)

	Notes	Group		Company	
		As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
EQUITY AND LIABILITIES					
Equity					
Share capital	1	256.392	255.710	256.392	255.710
Legal reserve	10	0	233	-	2.808
Other reserve		-	-	-	-
Retained earnings (deficit)					
Total comprehensive income (accumulated loss) for the current year		28.587	6.404	28.697	6.928
Total comprehensive income (accumulated loss) for the previous years		172	(6.465)	4.045	(2.883)
Total retained earnings (deficit)		28.759	(61)	32.742	4.045
Total equity		285.151	255.882	289.134	259.755
Liabilities					
Non-current liabilities					
Non-current borrowings	11	39.625	37.198	39.625	37.198
Financial lease obligations	12	44	44	-	-
Deferred tax liability		2.030	2.030	2.699	2.699
Grants (deferred income)	13	11.674	11.832	11.674	11.832
Employee benefit liability	14	1.820	1.820	1.820	1.820
Other non-current liabilities		634	735	634	735
Total non-current liabilities		55.827	53.659	56.452	54.284
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12	10.531	12.935	10.493	12.884
Current borrowings	11	18.086	9.663	18.086	9.663
Trade payables	15	29.702	41.502	29.779	41.529
Payroll-related liabilities		2.510	1.812	2.273	1.660
Advances received		889	1.216	889	1.216
Taxes payable		41	1.316	0	1.259
Derivative financial instruments	16	807	787	807	787
Current portion of employee benefit liability	14	604	656	604	656
Other current liabilities		319	318	318	319
Total current liabilities		63.489	70.205	63.249	69.973
Total liabilities		119.316	123.864	119.701	124.257
Total equity and liabilities		404.467	379.746	408.835	384.012

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

General Manager	Rimantas Bakas		26 April 2010
Chief Accountant	Violeta Staškūnienė		26 April 2010

Statements of Comprehensive Income

	Notes	Group			
		2010 I quarter	2009	2009 I quarter	2008
Operating income					
Sales income	17	136.078	280.411	146.931	205.974
Other operating income	19	496	1.114	261	1.337
Total operating income		136.574	281.525	147.192	207.311
Operating expenses					
Fuel and heat acquired		(91.596)	(197.698)	(102.850)	(137.604)
Salaries and social security	14	(5.133)	(23.236)	(4.208)	(24.999)
Materials		(351)	(1.758)	(443)	(2.403)
Taxes other than income tax		(1.034)	(4.238)	(986)	(3.462)
Electricity		(886)	(2.558)	(1.026)	(2.891)
Depreciation and amortisation	3,4	(3.979)	(16.688)	(4.250)	(18.982)
Repairs and maintenance		(507)	(6.351)	(379)	(5.160)
Water		(167)	(692)	(70)	(517)
Write-offs and change in allowance for accounts receivable	8	(486)	(6.524)	(340)	1
Change in allowance for inventories	7	0	433		181
Maintenance of heating systems		-	-	-	-
Petrašiūnai power plant operator expenses	1	(340)	(1.925)	(585)	(2.184)
Other expenses	18	(2.709)	(8.908)	(2.512)	(10.760)
Other activities expenses	19	(446)	(825)	(149)	(1.363)
Total operating expenses		(107.634)	(270.968)	(117.798)	(210.143)
Operating profit (loss)		28.940	10.557	29.394	(2.832)
Finance income	20	313	1.576	266	1.281
Finance costs	21	(666)	(3.611)	(1.062)	(3.343)
Finance cost, net		(353)	(2.035)	(796)	(2.062)
Profit (loss) before income tax		28.587	8.522	28.598	(4.894)
Income tax	22	0	(2.118)		660
Net profit (loss)		28.587	6.404	28.598	(4.234)
Other comprehensive income (expenses)		-	-	-	-
Total comprehensive income (loss)/					
Profit (loss) attributable to the shareholders		28.587	6.404	28.598	(4.234)
Basic and diluted earnings (loss) per share (litas)	23	0,67	0,22	1,44	(0,21)


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

General Manager	Rimantas Bakas		26 April 2010
Chief Accountant	Violeta Staškūnienė		26 April 2010

Statements of Comprehensive Income

	Notes	Company			
		2010 I quarter	2009	2009 I quarter	2008
Operating income					
Sales income	17	135.729	279.548	146.879	205.233
Other operating income	19	470	1.164	246	1.322
Total operating income		136.199	280.712	147.125	206.555
Operating expenses					
Fuel and heat acquired		(91.596)	(197.698)	(102.850)	(137.604)
Salaries and social security		(4.851)	(21.418)	(3.797)	(22.396)
Materials		(320)	(1.507)	(405)	(1.991)
Taxes other than income tax		(1.026)	(4.177)	(975)	(3.402)
Electricity		(882)	(2.539)	(1.019)	(2.863)
Depreciation and amortisation	3,4	(3.957)	(16.510)	(4.207)	(18.784)
Repairs and maintenance		(565)	(6.619)	(379)	(5.181)
Water		(166)	(686)	(68)	(502)
Write-offs and change in allowance for accounts receivable	8	(486)	(6.524)	(340)	1
Change in allowance for inventories	7	0	433		181
Maintenance of heating systems		(144)	(1.141)	(453)	(2.485)
Petrašiūnai power plant operator expenses	1	(340)	(1.925)	(585)	(2.184)
Other expenses	18	(2.667)	(8.708)	(2.464)	(10.248)
Other activities expenses	19	(150)	(840)	(142)	(1.357)
Total operating expenses		(107.150)	(269.859)	(117.684)	(208.815)
Operating profit (loss)		29.049	10.853	29.441	(2.260)
Finance income	20	313	1.576	266	1.281
Finance costs	21	(665)	(3.606)	(1.060)	(3.800)
Finance cost, net		(352)	(2.030)	(794)	(2.519)
Profit (loss) before income tax		28.697	8.823	28.647	(4.779)
Income tax	22	0	(1.895)		436
Net profit (loss)		28.697	6.928	28.647	(4.343)
Other comprehensive income (expenses)		-	-	-	-
Total comprehensive income (loss)/		28.697	6.928	28.647	(4.343)
Profit (loss) attributable to the shareholders		28.697	6.928	28.647	(4.343)
Basic and diluted earnings (loss) per share (litas)	23	0,67	0,16	1,44	(0,22)

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

General Manager	Rimantas Bakas		26 April 2010
Chief Accountant	Violeta Staškūnienė		26 April 2010

Statements of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2008		119.510	3.041	-	(9.273)	113.278
Total comprehensive income (loss)		-	-	-	28.598	28.598
Balance as of 31 March 2009		119.510	3.041	-	19.325	141.876
Transferred from reserves	10	-	(2.808)	-	2.808	-
Increase in share capital	1	136.200	-	-	-	136.200
Total comprehensive income (loss)		-	-	-	(22.194)	(22.194)
Balance as of 31 December 2009		255.710	233	-	(61)	255.882
Total comprehensive income		-	-	-	28.587	28.587
Transferred from reserves	10	-	(233)	-	233	-
Increase in share capital	1	682	-	-	-	682
Balance as of 31 March 2010		256.392	-	-	28.759	285.151

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2008		119.510	2.808	-	(5.691)	116.627
Total comprehensive income (loss)		-	-	-	28.647	28.647
Balance as of 31 March 2009		119.510	2.808	-	22.956	145.274
Transferred from reserves	10	-	(2.808)	-	2.808	-
Increase in share capital	1	136.200	-	-	-	136.200
Total comprehensive income (loss)		-	-	-	(21.719)	(21.719)
Balance as of 31 December 2009		255.710	-	-	4.045	259.755
Total comprehensive income (loss)		-	-	-	28.697	28.697
Transferred from reserves	10	-	-	-	-	-
Increase in share capital	1	682	-	-	-	682
Balance as of 31 March 2010		256.392	-	-	32.742	289.134

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

General Manager	Rimantas Bakas		26 April 2010
Chief Accountant	Violeta Staškūnienė		26 April 2010

Statements of Cash Flows

	Group		Company	
	2010 I quarter	2009 I quarter	2010 I quarter	2009 I quarter
Cash flows from (to) operating activities				
Net profit (loss)	28.587	28.598	28.697	28.647
Adjustments for non-cash items:	4.964	3.960	4.902	3.894
Depreciation and amortisation	4.351	4.464	4.305	4.421
Write-offs and change in allowance for accounts receivable	486	340	486	340
(Profit) loss from sale and write-off of property, plant and equipment	(2)	5	(2)	3
Accruals	(106)		(121)	
Employee benefit liability		(1.443)		(1.462)
(Amortisation) of grants	(158)	(189)	(158)	(189)
Derivative financial instruments	20	228	20	228
Interest expenses	685	833	684	831
Elimination of other financial and investing activity results	(312)	(278)	(312)	(278)
Changes in working capital:	(39.576)	(41.880)	(39.511)	(41.754)
Decrease in inventories	31	49	25	169
(Increase) in prepayments	305	(135)	318	(150)
(Increase) in trade receivables	(23.229)	(26.643)	(23.315)	(26.314)
(Increase) decrease in other receivables	(3.967)	(2.048)	(3.817)	(1.970)
Increase (decrease) in other non-current liabilities	-	(89)	-	(89)
Increase (decrease) in current trade payables and advances received	(12.127)	(13.061)	(12.077)	(13.404)
Increase in payroll-related liabilities	683	720	613	661
(Decrease) in other liabilities to budget	(1.275)	(708)	(1.259)	(691)
Increase in other current liabilities	3	35	1	34
Net cash flows from operating activities	(6.025)	(9.322)	(5.912)	(9.213)


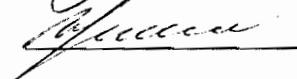
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The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows (cont'd)

	Group		Company	
	2010 I quarter	2009 I quarter	2010 I quarter	2009 I quarter
Cash flows from investing activities				
(Acquisition) of tangible and intangible assets	(1.153)	(5.433)	(1.148)	(5.421)
Proceeds from sale of tangible assets	6	132	6	1
Penalty interest and fines received	305	263	305	263
(Increase) in cash flows from non-current accounts receivable			(141)	-
Interest received	7	2	7	2
Net cash flows from investing activities	(835)	(5.036)	(971)	(5.155)
Proceeds from loans	10.850	22.205	10.850	22.205
(Repayment) of loans	(2.391)	(1.817)	(2.391)	(1.817)
Interest (paid)	(719)	(820)	(718)	(818)
Financial lease (payments)	(13)	(22)		(10)
Net cash flows from financing activities	7.727	19.546	7.741	19.560
Net (decrease) increase in cash and cash equivalents	867	5.188	858	5.192
Cash and cash equivalents at the beginning of the period	3.131	3.616	3.094	3.604
Cash and cash equivalents at the end of the period	3.998	8.804	3.952	8.796

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

General Manager	Rimantas Bakas		26 April 2010
Chief Accountant	Violeta Staškūnienė		26 April 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 March 2010 and of 31 December 2009 the shareholders of the Company were as follows:

	As of 31 March 2010		As of 31 December 2009	
	Number of shares owned	Percentage of ownership	Number of shares owned	Percentage of ownership
Kaunas city municipality	39.665.892	92,82	39.654.892	93,05
Kaunas district municipality	1.606.168	3,76	1.606.168	3,77
Jurbarkas district municipality council	746.405	1,75	643.810	1,51
Other minor shareholders	713.512	1,67	713.512	1,67
	<u>42.731.977</u>	<u>100,00</u>	<u>42.618.382</u>	<u>100,00</u>

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.

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.

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

All shares were fully paid as of 31 March 2010.

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	Profit (loss) for the reporting period	Total equity	Main activities
UAB Pastatų Priežiūros Paslaugos	Savanoriai Ave. 347, Kaunas	100 %	6,518	(138)	5.597	Maintenance of heating systems

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. A new lease agreement was signed On 2 July 2009 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.

As of 31 March 2010 the average number of employees at the Group was 603 (629 employees in 2009). In 31 March 2009 the average number of employees at the Company was 540 (569 employees in 2009).

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).

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.

2.5. 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.

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.

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

Financial assets or financial liabilities designated at fair value through profit or loss

The category 'a financial asset 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.

2.10. 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. Since 2009 1 January borrowing costs that are directly associated with assets that are up for sale or use of long duration, acquisition, construction or production, are capitalized as part of the cost 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.

2.14. 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 comprises 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 deductible. 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.

2.17. 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

Financial assets

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.

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. If the Group and the Company would continue using 20 and 10 years depreciation period, depreciation expenses for 2010 I quarter would be higher by LTL 1,120 thousand and property plant and equipment balance as at 31 March 2010 would be lower by LTL 7,193 thousand (depreciation expenses for 2009 would be higher by LTL 4,473 thousand and property plant and equipment balance as at 31 December 2009 would be lower by LTL 6,073 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.

Change in accounting estimate.

For evaluation of impairment of assets the entire Group and Company was considered as a cash generating unit as of 31 December 2008. As at 31 March 2010 and 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 contribution in-kind. Market value of assets estimated upon their transfer by local independent qualified valuers using depreciated replacement costs method amounted to LTL 136 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 values 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.

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.

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 March 2010, 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 further 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.

Comparative figures have been adjusted to correspond to the presentation of the current year where necessary.

3. Intangible assets

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

Part of the non-current intangible assets of the Group and the Company with the acquisition cost of LTL 3.067 thousand as of 31 March 2010 (LTL 2.782 thousand as of 31 December 2009) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment for 31 March 2010 amounts to LTL 4.181 thousand and LTL 4.137 thousand, respectively (LTL 16.965 thousand and LTL 16.798 thousand in 2009). The amounts of LTL 3.809 thousand and LTL 3.789 thousand (LTL 16.024 thousand and LTL 15.856 thousand for the year 2009), 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 77.566 thousand were fully depreciated as of 31 March 2010 (LTL 78.905 thousand as of 31 December 2009) but were still in active use.

As of 31 March 2010 and of 31 December 2009 the major part of the Group's and Company's construction in progress consisted of reconstruction works.

As of 31 March 2010 property, plant and equipment of the Group and the Company with the net book value of LTL 114.240 thousand (LTL 114.153 thousand as of 31 December 2009) was pledged to banks as a collateral for loans (Note 11).

5. Non-current accounts receivable

	Group		Company	
	As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Long-term loans granted to the Company's employees	61	61	61	61
Other			189	48
	<u>61</u>	<u>61</u>	<u>250</u>	<u>109</u>

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 March 2010 and of 31 December 2009 are neither past due nor impaired.

6. Other financial assets

	Group		Company	
	As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
<i>Available-for-sale financial assets</i>				
Ordinary shares – unquoted	433	433	433	433

7. Inventories

	Group		Company	
	As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Technological fuel	3.407	3.429	3.407	3.429
Spare parts	1.182	1.197	1.026	1.047
Materials	960	954	976	958
	<u>5.549</u>	<u>5.580</u>	<u>5.409</u>	<u>5.434</u>
Valuation allowance at the end of the year	(208)	(208)	(208)	(208)
	<u>5.341</u>	<u>5.372</u>	<u>5.201</u>	<u>5.226</u>

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 March 2010 amounted to LTL 208 thousand (LTL 208 thousand as of 31 December 2009).

Changes in the valuation allowance for inventories for the I quarter 2010 and 2009 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 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Trade receivables, gross	108.234	85.005	108.005	84.690
Less: impairment of doubtful receivables	(25.663)	(25.177)	(25.663)	(25.177)
Trade receivables, net	<u>82.571</u>	<u>59.828</u>	<u>82.342</u>	<u>59.513</u>

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 March 2010 trade receivables with the nominal value of LTL 25.663 thousand (as of 31 December 2009 – LTL 25.177 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 2008	<u>19.480</u>
Used	(856)
Additional allowance formed	6.553
Balance as of 31 December 2009	<u>25.177</u>
Additional allowance formed	486
Balance as of 31 March 2010	<u>25.663</u>

In 2009 the Group and the Company wrote off LTL 856 thousand (in 2008 – LTL 678 thousand) of bad debts.

In 2010 the Group and the Company also recovered LTL 2 thousand of bad debts (in 2009 – LTL 29 thousand), which were written off in the previous periods.

The ageing analysis of the Group's trade receivables as of 31 March 2010 and of 31 December 2009 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2010	40.096	23.201	9.846	1.122	1.305	7.001	82.571
2009	38.958	7.951	1.580	2.353	7.243	1.743	59.828

The ageing analysis of the Company's trade receivables as of 31 March 2010 and 31 December 2009 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2010	39.867	23.201	9.846	1.122	1.305	7.001	82.342
2009	38.643	7.951	1.580	2.353	7.243	1.743	59.513

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 360 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.

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

	Group		Company	
	As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Taxes	1.798	2.806	1.798	2.806
Other receivables	6.530	1.555	6.666	1.841
Total	8.328	4.361	8.464	4.647

As of 31 March 2010 and of 31 December 2009, 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 March 2010 and of 31 December 2009 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but not impaired					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2010	2.496	3.969	40	11	8	6	6.530
2009	1.490	40	11	8	6	-	1.555

The ageing analysis of the Company's other receivables (excluding taxes) as of 31 March 2010 and 31 December 2009 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but not impaired					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2010	2.632	3.969	40	11	8	6	6.666
2009	1.776	40	11	8	6	-	1.841

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 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Cash in transit	2.307	1.557	2.307	1.557
Cash at bank	1.671	1.541	1.627	1.505
Cash on hand	20	33	18	32
	3.998	3.131	3.952	3.094

The Group's and the Company's accounts in national currency in banks amounting to LTL 1.568 thousand as at 31 March 2010 (31 December 2009 – LTL 1.327 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.

On 4 March 2010, based on the decision of the shareholders the Group transferred an amount of LTL 233 thousand from legal reserve to cover losses of 2009.

11. Borrowings

	Group		Company	
	As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Non-current borrowings				
Non-current borrowings	39.625	37.198	39.625	37.198
Current borrowings				
Current portion of non-current borrowings	10.493	12.884	10.493	12.884
Current borrowings (including credit line)	12.734	5.964	12.734	5.964
Other interest bearing liabilities	5.352	3.699	5.352	3.699
	<u>28.579</u>	<u>22.547</u>	<u>28.579</u>	<u>22.547</u>
Total	<u>68.204</u>	<u>59.745</u>	<u>68.204</u>	<u>59.745</u>

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

	Group		Company	
	As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
2009	-	-	-	-
2010	10.493	12.884	10.493	12.884
2011	14.338	14.338	14.338	14.338
2012	9.781	9.781	9.781	9.781
2013	6.197	4.981	6.197	4.981
2014	6.095	4.932	6.095	4.932
2015	2.008	1.961	2.008	1.961
2016	850	850	850	850
2017	356	355	356	355
	<u>50.118</u>	<u>50.082</u>	<u>50.118</u>	<u>50.082</u>

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 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Current borrowings	3,7	3,6	3,7	3,6
Non-current borrowings	3,6	3,5	3,6	3,5

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

	Group		Company	
	As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Currency of the loan:				
EUR	55.372	50.863	55.372	50.863
LTL	12.832	8.882	12.832	8.882
	68.204	59.745	68.204	59.745

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 March 2010 the outstanding balance of the loan amounted to LTL 1,882 thousand of which LTL 624 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 3,439 thousand (the equivalent of LTL 11,875 thousand) as of 31 March 2010, of which LTL 1,875 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 March 2010 the outstanding balance of the loan amounted to LTL 4,777 thousand, of which LTL 629 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 March 2010 the outstanding balance of the loan amounted to EUR 687 thousand (the equivalent of LTL 2,372 thousand), of which LTL 296 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 March 2010 the outstanding balance of the loan amounted to EUR 486 thousand (the equivalent of LTL 1,678 thousand), of which LTL 186 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 bears 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 March 2010 the outstanding balance of the investment credit amounted to EUR 502 thousand (the equivalent of LTL 1,733 thousand), of which LTL 262 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 March 2010 the outstanding balance of the investment credit amounted to EUR 1,131 thousand (the equivalent of LTL 3,905 thousand), of which LTL 150 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 March 2010 the outstanding balance of the loan amounted to EUR 2,129 thousand (the equivalent of LTL 7,351 thousand), of which LTL 3,150 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. 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 19 July 2009. As of 31 March 2010 the Group and the Company's balances of used credit line was LTL 6,000 thousand (LTL 1,560 thousand as of 31 December 2009). 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 2.4 % 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 March 2010, the utilised amount of the overdraft by the Group and the Company was EUR 1,950 thousand (LTL 6,734 thousand) (31 December 2009: LTL 4,380 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 1,500 thousand (LTL 5,179 thousand) as at 31 March 2010. 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 March 2010 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 March 2010 the balance of used loan was EUR 1,375 thousand (the equivalent of LTL 4,747 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 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Vehicles	67	80	-	-

As of 31 March 2010 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 March 2010 are as follows:

	Group		Company	
	As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Within one year	40	54	-	-
From one to five years	45	45	-	-
Total financial lease obligations	85	99	-	-
Interest	(3)	(4)	-	-
Present value of financial lease obligations	82	95	-	-
Financial lease obligations are accounted for as:				
- current	38	51	-	-
- non-current	44	44	-	-

13. Grants (deferred income)

	Group		Company	
	As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Balance at the beginning of the reporting period	11.832	10.253	11.832	10.253
Received during the period		2.209		2.209
Amortisation	(158)	(630)	(158)	(630)
Balance at the end of the reporting period	11.674	11.832	11.674	11.832

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 subsidies 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 March 2010 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 March 2010.

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 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Non-current employee benefit liability	1.820	1.820	1.820	1.820
Current employee benefit liability	604	656	604	656
	<u>2.424</u>	<u>2.476</u>	<u>2.424</u>	<u>2.476</u>

Total amount of the Group and the Company employee benefit expenses is LTL 52 thousand during the period which ended 31 March 2010 (LTL 521 thousand during the year which ended 31 December 2009). These expenses are included in salaries and social security expenses in the Group's and the Company's statement of comprehensive income.

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

	As of 31 March 2010	As of 31 December 2009
Discount rate	7,0 proc.	7,0 proc.
Employee turnover rate	18,9 proc.	18,9 proc.
Expected average annual salary increases	3,0 proc.	3,0 proc.

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 nominal amount of the transaction was EUR 2,129 thousand (the equivalent of LTL 7,351 thousand) as at 31 March 2010 (EUR 2,433 thousand (the equivalent of LTL 8,401 thousand) as at 31 December 2009). Market value of swap amounted to LTL 139 thousand as at 31 March 2010.

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 nominal 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 nominal amount of the transaction was EUR 3,439 thousand (the equivalent of LTL 11,875 thousand) as at 31 March 2010 (EUR 3,620 thousand (the equivalent of LTL 12,500 thousand) as at 31 December 2009). Market value of swap amounted to LTL 668 thousand as at 31 March 2010.

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	
	2010 I quarter	2009	2010 I quarter	2009
Heat energy	135.256	277.001	135.289	277.053
Maintenance of the heating and hot water supply systems of buildings	527	2.365	145	1.450
Electricity energy	39	393	39	393
Revenue from sale of emission rights		117		117
Maintainance of manifolds	256	535	256	535
	<u>136.078</u>	<u>280.411</u>	<u>135.729</u>	<u>279.548</u>

18. Other activities income and expenses

	Group		Company	
	2010 I quarter	2009	2010 I quarter	2009
Income from other operating activities				
Miscellaneous services	239	977	212	903
Materials sold	96	93	100	132
Gain from sale of non-current assets	4	4	4	96
Other	157	40	154	33
	<u>496</u>	<u>1.114</u>	<u>470</u>	<u>1.164</u>
Expenses from other operating activities				
Cost of miscellaneous services	(442)	(567)	(145)	(545)
Cost of materials sold		(168)	(3)	(208)
Loss from sale of non-current assets		(5)		(6)
Write off of non-current assets	(2)	(81)	(2)	(81)
Other	(2)	(4)	-	-
	<u>(446)</u>	<u>(825)</u>	<u>(150)</u>	<u>(840)</u>

19. Finance income

	Group		Company	
	2010 I quarter	2009	2010 I quarter	2009
Income from financial and investment activities				
Interest from late payment of accounts receivable	305	1.571	305	1.571
Bank interest receivable	7	3	7	3
Dividends received	-	-	-	-
Other	1	2	1	2
	<u>313</u>	<u>1.576</u>	<u>313</u>	<u>1.576</u>

20. Finance costs

	Group		Company	
	2010 I quarter	2009	2010 I quarter	2009
Finance costs				
Interest on bank loans and overdrafts	(646)	(3.269)	(645)	(3.264)
Change in fair value of derivative financial instruments	(20)	(220)	(20)	(220)
Impairment loss of investment in subsidiary	-	-	-	-
Late interest penalties		(121)		(121)
Other		(1)		(1)
	<u>(666)</u>	<u>(3.611)</u>	<u>(665)</u>	<u>(3.606)</u>

21. Basic and diluted earnings (loss) per share

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

	Group	
	2010 I quarter	2009
Total comprehensive income (loss)	28.587	6.404
Number of shares (thousand), opening balance	42.618	19.918
Number of shares (thousand), closing balance	42.732	42.618
Average number of shares (thousand)	42.626	29.376
Basic and diluted earnings (loss) per share (LTL)	0,67	0,22

22. Financial assets and liabilities and risk management

Credit risk

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

	31 March 2010	
	Group	Company
A	1.295	1.251
A+	59	59
AA-	263	263
B+	12	12
-	42	42
	1.671	1.627

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

The Group and the Company do not guarantee obligations of the other parties in 2010.

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.

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

Interest rate risk

The entire 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
2010		
LTL	+227	(152)
LTL	- 227	152
EUR	+ 30	(151)
EUR	- 30	151
2009		
LTL	+170	(150)
LTL	- 170	150
EUR	+ 30	(153)
EUR	- 30	153

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 March 2010 were 1.58 and 1.50 respectively (1.04 and 0.97 as of 31 December 2009). The Company's liquidity and quick ratios as of 31 March 2010 were 1.59 and 1.51, respectively (1.05 and 0.97 as of 31 December 2009).

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), 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.

The table below summarises the maturity profile of the Group's financial liabilities as of 31 March 2010 and of 31 December 2009 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	22.433	7.800	39.530	1.218	70.981
Trade payables	29.072	621	9	-	29.702
Balance as of 31 March 2010	51.505	8.421	39.539	1.218	100.683
Interest bearing loans and borrowings	6.731	17.724	36.344	3.240	64.039
Trade payables	39.116	2.334	52	-	41.502
Other current liabilities					
Balance as of 31 December 2009	45.847	20.058	36.396	3.240	105.541

The table below summarises the maturity profile of the Company's financial liabilities as of 31 March 2010 and of 31 December 2009 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	22.420	7.773	39.485	1.218	70.896
Trade payables	29.149	621	9	-	29.779
Balance as of 31 March 2010	51.569	8.394	39.494	1.218	100.675
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

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 March 2010 were as follows (stated in LTL):

	Group		Company	
	Assets	Liabilities	Assets	Liabilities
LTL	94.942	48.557	94.992	48.273
EUR	16	55.372	16	55.372
	94.958	103.929	95.008	103.645

Fair value of financial instruments

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

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

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

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

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, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the year which ended 31 December 2009 and during the period which ended 31 March 2010, except for increase in share capital paid by contributions in kind as disclosed in Note 1.

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

The Group and the Company monitor capital using debt to equity ratio. Capital includes ordinary shares, reserves, 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 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Non-current liabilities (including deferred tax and grants)	55.827	53.659	56.452	54.284
Current liabilities	63.489	70.205	63.249	69.973
Liabilities	119.316	123.864	119.701	124.257
Equity	285.151	255.882	289.134	259.755
Debt* to equity ratio	41,84	48,41	41,40	47,84

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

23. Commitments and contingencies

The Company participates as a third part 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 2.22.

24. 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 2010 and 2009 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:

I quarter 2010	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	50	14.997	28.459	17
Jurbarkas district municipality	0	1.096	954	0

2009	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	443	24.597	15.063	18
Jurbarkas district municipality	3	1.866	278	37

In 2010 and 2009 the Company's transactions with the subsidiary and the balances at the end of the year were as follows:

I quarter 2010	Purchases	Sales	Receivables	Payables
Pastatų priežiūros paslaugos UAB	58	47	504	166

2009	Purchases	Sales	Receivables	Payables
Pastatų priežiūros paslaugos UAB	1.546	347	396	94

Remuneration of the management and other payments

As at 31 March 2010 the Group's and the Company's management team comprised 6 and 4 persons (6 and 4 persons as of 31 December 2009).

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(all amounts are in LTL thousand unless otherwise stated)

	Group		Company	
	I quarter 2010	2009	I quarter 2010	2009
Key management remuneration	96	494	75	338
Post-employment benefits paid	0	93	0	93

	Group		Company	
	As of 31 March 2010	As of 31 December 2009	As of 31 March 2010	As of 31 December 2009
Calculated post-employment benefits	44	44	44	44

In 2010 and 2009 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.

25. Post balance sheet events

On 9 of April 2010, the Company has signed a loan agreement with the Ministry of Finance of the Republic of Lithuania for the EUR 2,410 thousand. The interest rate of the loan is the interest rate of the loan of European Investment Bank granted to a country, increased by 0.12 percentage points. The loan is assigned for investment, partly financed by the European Union Structural Fund. The term of the repayment of the loan is 15 March, 2034.

On 19 of April, 2010 the College of the Kaunas City Council discussed the issue of establishing of the joint venture and has made a decision to agree in principle and to recommend to the Managing Board of SC "Kauno energija" to start the negotiations with JSC "Fortum Heat Lietuva" regarding construction of the new local fuel-fired power plant and the establishment of the new joint venture.