JOINT STOCK COMPANY „KAUNO ENERGIJA“

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

2010- 07-30 Nr. 20 - 3396

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 half of the year 2010 is prepared according to the International Financial Reporting Standards, generally accreditated 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 half of the year 2010, prepared according to the International Financial Reporting Standards, 30 pages.

Yours respectfully

General Manager Rimantas Bakas

Chief Accountant Violeta Staškūnienė

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KAUNO ENERGIJA AB CONSOLIDATED ANNUAL REPORT FOR 6 MONTHS PERIOD, 2010

CONTENTS

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

1. Accountability period for which intermediate report is prepared

The consolidated intermediate report of Kauno energija AB is prepared for the 6 months period, 2010.

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

Kauno energija AB (hereinafter – Company or Issuer) prepares both Company's and consolidated financial accountability. The group (hereinafter – Group) consists of Kauno energija AB and daughter company – Closed-end company UAB Pastatų priežiūros paslaugos in which the Company directly controls 100 % of the managed shares.

The main data about the Company:

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

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

The main data about the subsidiary:

Name of the company:	UAB Pastatų Priežiūros Paslaugos
Legal - organizational form:	Private company
Address:	Savanorių ave. 347, 49423 Kaunas - 43
Telephone number:	(+370 37) 305 959
E-mail:	info@kaunoenergija.lt
Webpage:	www.p-p-p.lt
Fax number:	(+370 37) 311 877
Registration date and place:	1 July 2006, Kaunas
Code of the legal person:	300580563
Register manager:	Kaunas Branch of State Enterprise Register Centre
VAT payer code:	LT100002506015

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

3. The nature of the main activity of the companies composing the group of companies

The nature of core activities of the Group – production and services. Kauno energija AB is the parent company of the Group. The Company produces and sells heat energy to consumers in Kaunas and Jurbarkas cities and in part of Kaunas administrative districts. In addition, in small quantities it produces electric energy in Kaunas city and Kaunas district. The Group and the Company carry out supervision of indoor heat and (or) hot water supply systems, maintenance of heating substation facilities, repairs of buildings and constructions, repairs of heating substations and other heating facilities, provides rental services of transport and premises, and other services to individuals and legal entities in relation to the supervision and maintenance of heat economy. The Group and the Company are engaged in licensed activity in accordance with the licenses held.

4. The agreements of issuer with finance broker companies and (or) credit institutions

On 1 April 2003 the Issuer signed Service Agreement with SEB Bankas AB (company code 1202123, Gedimino ave. 12, Vilnius), represented by the Finance Markets Department.

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

As at 30 June 2010, the Issuer's 42,731,977 ordinary registered shares (VP ISIN code LT0000123010) with total nominal value equal to LTL 256,391,862 were included into NASDAQ OMX Vilnius Stock Exchange Baltic secondary trade list.

6. Objective review of companies group state, activity and development, characterization of main risk types and in determination with which there is confrontation

Information on the Kauno energija AB about heat distribution by the number of consumer groups and the significant market size, as well as information on the external risk factors, economic factors, political factors, social factors, the technical - technological factors, ecological factors, remained unchanged from the description of the information published in Kauno energija AB the consolidated annual report prepared for the 2010.

Detailed information about the 2010, I half of the Company's heat sales income of the consolidated companies is presented in 2010 I half-yearly financial reports explanatory note 17, and information about the tangible and intangible asset acquisitions is presented in the cash flow statement of investment activity in the cash flow.

The bank loans repayment. The Company repays loans in the determined time. Detailed information is presented in Company's consolidated and the Company's financial statements for the 6 months period, 2010, Note 11 in the explanatory notes.

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

The first half of 2010 financial performance comparison with the 2009 is presented in Table 1.

Table 1

No.	Financial ratios	Company's 2009	Group's 2009	Company's first half of 2010	Group's first half of 2010
1	Net profitability, % (net profit /sales and services)*100	2,5	2,3	10,8	10,7
2	Return on tangible assets, % (net profit/average value of tangible assets)*100	2,9	2,7	5,7	5,8
3	Debt ratio (liabilities /assets)	0,32	0,33	0,26	0,27
4	Debt-to-equity ratio (liabilities / equity)	0,5	0,5	0,4	0,4
5	General liquidity ratio (short-term assets /short-term liabilities)	1,05	1,04	1,39	1.39
6	Asset turnover ratio (sales and services/ assets)	0,73	0,74	0.44	0.45
7	EBITDA (earnings before interest, taxes, depreciation and amortisation) LTL thousand	28.909	28.790	26.821	26.823
8	Gross profit margin (gross profit/sales and services)*100	3,8	3,7	10,5	10,6
9	Operating margin (operating profit/sales and services)*100	3,8	3,7	10,5	10,6
10	Return on equity (ROE) % (net profit/average equity)*100	3,7	3,5	6,7	6,7
11	Return on assets (ROA) % (net profit/ average assets)*100	2,2	2,1	4,7	4,7
12	Quick ratio((short-term assets- inventory)/short-term liabilities)	0,97	0,97	1,26	1,26
13	Cash ratio (cash in hand and at bank / short-term liabilities)	0,04	0,04	0,05	0,05
14	Net earnings per share (net profit/average weighted number of shares in issue)	0,24	0,22	0,42	0,41
15	Net profit, LTL thousand	6.928	6.404	17.771	17.683
16	Assets, LTL thousand	384.012	379.746	373.773	369.432
17	Equity, LTL thousand	259.755	255.882	274.619	270.658
18	Equity per share, LTL	8,8	8,7	6,4	6,3
19	Revenue from sales and services, LTL thousand	279.548	280.411	163.839	164.536
19.1	Heat energy	277.053	277.001	163.050	163.017
19.2	Electric energy	393	393	148	148
19.3	Supervision of indoor heating and hot water supply systems, heating substation facilities	1.450	2.365	290	1.020
19.4	Income from emission permits and maintenance of collectors	652	652	212	212
20	P/E ratio (the last share market price of the year /(net profit/number of shares at year-end)	10,18	11,01	6,61	6,64
21	Share capital, LTL thousand	255.710	255.710	256.392	256.392
22	Share capital-to-assets ratio	0,67	0,67	0,69	0,69
23	Return on equity (capital) (net profit/ capital and reserves)*100	2,7	2,5	6,9	6,9

* *decrease was caused by increased financial liabilities for the current year.*
** *the asset of the Group is less than that of the Company because of the elimination of LTL 4.5 million asset revaluation due to in-kind contribution to the subsidiary.*

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

The comparison of non-financial data for the year 2010 with the first half of 2009 is presented in Table 2.

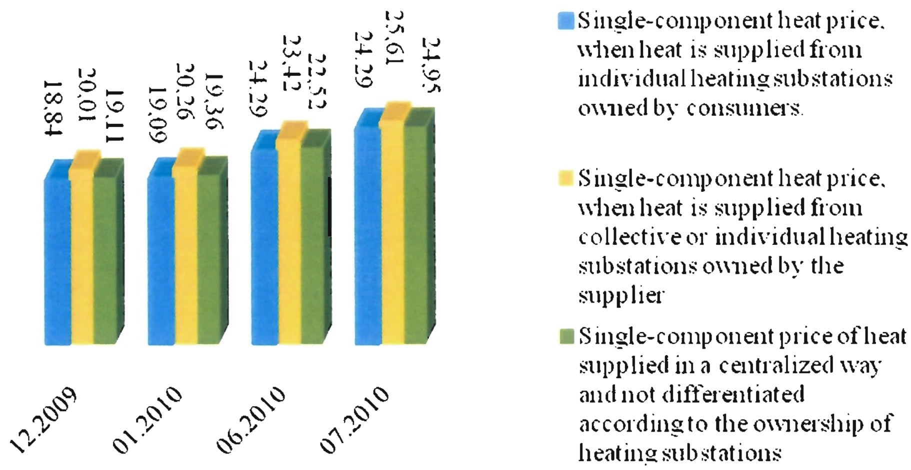
Table 2

No.	Non-financial indicators	Measure units	Company's 2009	Group's 2009	Company's first half of 2010	Group's first half of 2010
1.	Energy produced and purchased: from which supplied to the network	thousand MWh	1601,8	970,71	970,71	1601,8
1.1.	heat energy	thousand MWh	1578,7	956,3	956,3	1578,7
1.2.	electric energy	thousand MWh	1,3	0,5	0,5	1,3
2.	Energy sold	thousand MWh	1255,46	791,0	790,84	1255,46
2.1.	heat energy	thousand MWh	1254,17	790,5	790,34	1254,17
2.2.	electric energy	thousand MWh	1,3	0,5	0,5	1,3
3.	Heat supply networks reconstructed	m	3.599	1924,85	1924,85	3.599
4.	Heat supply networks newly constructed	m	340	1068	1068	340
5	Maintenance of indoor heating and hot water supply systems (area maintained)	m2	896.276	241.399	873.352	896.276

The change in the prices of heat supplied by the Company during 2009 to 2010 with the first half is demonstrated in Chart 1.

Chart 1

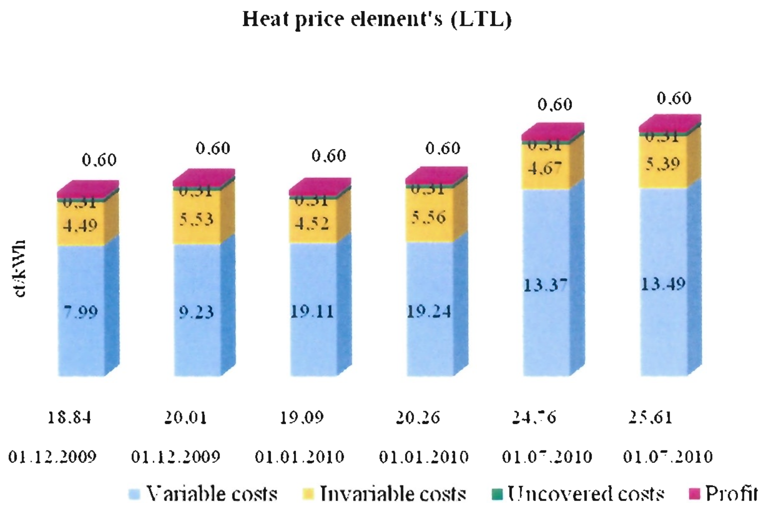
The change in the price of heat supplied by Kauno energija AB (ct/kWh)



The elements of heat price sold during 2009 to 2010 with the first half are given in Chart 2.

Chart 2

The average heat price purchased by the Company in first half 2010 increased by 0.41 cents (3.3 per cent) as compared to 2009, and was equal to 12.16 cents/kWh.



With environmental and personnel matters related information remained unchanged from the information published in Kauno energija AB consolidated annual report prepared for the 2009.

8. References and additional explanations on the data presented in the 6 months financial accountability

All main financial data are presented in the 6 months intermediate financial accountability and its explanation letter.

Information on the consolidated internal control remained unchanged from the information published in Kauno energija AB consolidated annual report prepared for the 2009.

9. Important events after the end of the previous financial year

On 13 April 2010 Supervisory Board elected two new audit committee members instead of two committee members resigning. New audit committee members started to work on 14 April 2010. On 16 June 2010 the resignation of audit committee member Daiva Birutė Ramanauskienė has been adopted by the decision of Supervisory Board of SC "Kauno energija". On 16 June 2010 the membership of the member of Managing Board of SC "Kauno energija" A. Vaitiekūnas has been suspended by the decision of Supervisory Board for the period of pre-trial investigation (material No. 07-1-00120-09).

Data on the most important events presented after the end of this report and in paragraph 27 of the consolidated companies in 2010 first half-yearly financial reports explanatory note 25.

10. The plans and forecasts of the activity of the companies group

Information related to the group of companies operating plans and forecasts unchanged since the information was published in Kaunas energija AB consolidated annual report prepared for the 2009.

11. Information on the companies group research and development activity

In June 2010 the final report of the "Renewed SC "Kauno energija" strategy for heat supply system development in 2007 – 2020: evaluation of possibilities of biofuel usage development for heat production in Kaunas integrated network" has been completed by Lithuanian Institute of Energy on behalf of the company.

12. Information on Issuer acquired and own shares

(number and nominal value of the patronized company shares, belonging to the company, it's daughter companies or by their assignment, but by their name acting persons)

The Company did not acquire its own shares. Daughter company also did not acquire the Company shares. The Company and it's daughter company during the reporting period did not buy or sell their shares.

13. Information on financial risk management aims, used insurance measures for main groups of foreseen agreements for which accounting of insurance agreements is applied and scope of price risk, credit risk, liquidity risk and money flows risk of group of companies when group of companies uses financial means and when it is important in evaluation of the property, own capital, obligations, financial state and activity results of the group of companies

All information on this subject is presented by the consolidated companies in 2009 I half-yearly financial reports for Explanatory Memorandum 16, 22 notes.

14. Information on Issuer subsidiary and secondary enterprises

By the decision of the Company's Board, the Company's branch office Jurbarko Šilumos Tinklai was established and registered on 9 September 1997 at address: V. Kudirkos str. 11, 4430 Jurbarkas. Heat produced in the branch of the Company is sold to the consumers in Jurbarkas city.
As at June 30 2010, the Company's branch office Jurbarko Šilumos Tinklai had 35 employees.

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

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

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

As at 30 June 2010, the Company's subsidiary had 67 employees.

15. The authorized capital structure of the Issuer

In the Enterprises register of the Republic of Lithuania the registered share capital of the Company is LTL 256,391,862.

The authorized capital structure of the Issuer according to the shares type is presented in Table 3.

Table 3

Type of shares	Number of shares, units	Par value, LTL	Total nominal value, LTL	Ownership interest of municipalities, %	Ownership interest of individual shareholders, %
Ordinary registered shares	42,618,382	6	255,710,292	98.33	1.67
Total:	42,618,382	-	255,710,292	98.33	1.67

16. Data on issues of the shares of the Issuer

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

All ordinary registered shares of Kauno energija AB are fully paid for. There are no restrictions for transfer of securities.

16.1. Key data of shares in issue for public trading (as at 30 June 2010)

No. of registration of stock	A01031430
Number of shares	42,731,977 ORS
Nominal value	LTL 6
Total nominal value of shares	LTL 256,391,862

The Company's security trading history is presented in Table 4.

Table 4

Trading history data	2006	2007	2008	2009	2010
Open **(LTL)**	4,18	4,58	3,50	2,00	2,45
Highest **(LTL)**	4,67	4,95	3,80	2,65	3,18
Lowest **(LTL)**	3,05	3,10	1,70	1,41	2,00
Last **(LTL)**	4,30	3,50	2,00	2,40	2,75
Traded , units	183 008	138 163	82 775	92 418	42 259
Turnover **(LTL million)**	0,70	0,55	0,26	0,19	0,11
Capitalisation **(LTL million)**	81,56	66,39	37,94	102,28	117,51

Share prices and turnover history is presented in Chart 2.

Chart 2

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

Chart 2

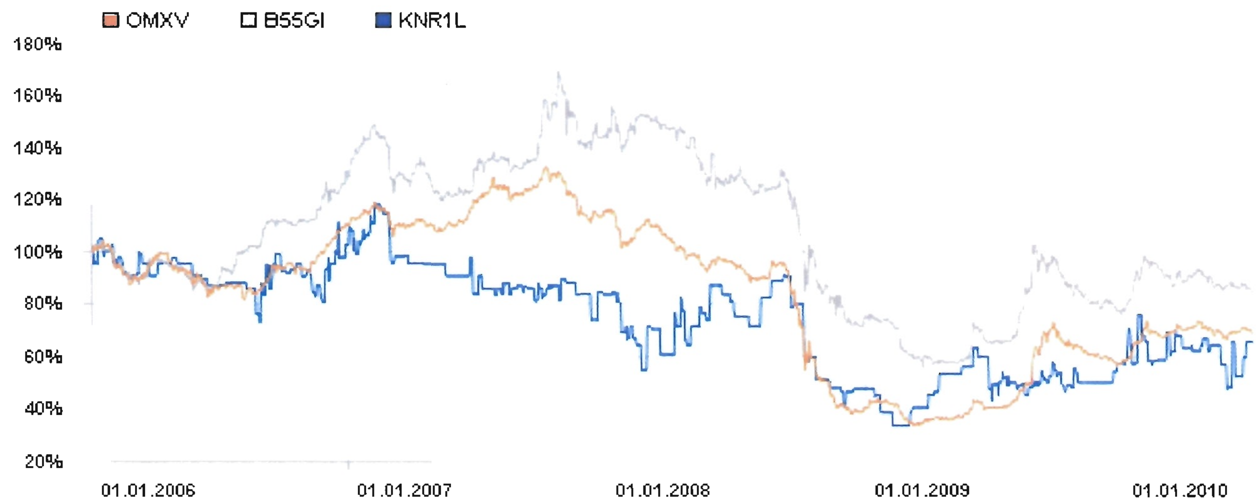


Chart 2 data:

Index/Equity	01 01 2006	30 06 2010	+/-%
OMX Vilnius	448,76	305,49	-31,93 ↓
OMX Baltic Utilities GI	786,12	666,58	-15,21 ↓
KNR1L	4,18 LTL	2,75 LTL	-34,21 ↓

17. Information about Issuer shareholders

Total number of Kauno energija AB shareholders on 30 June 2010 is 366 shareholders.

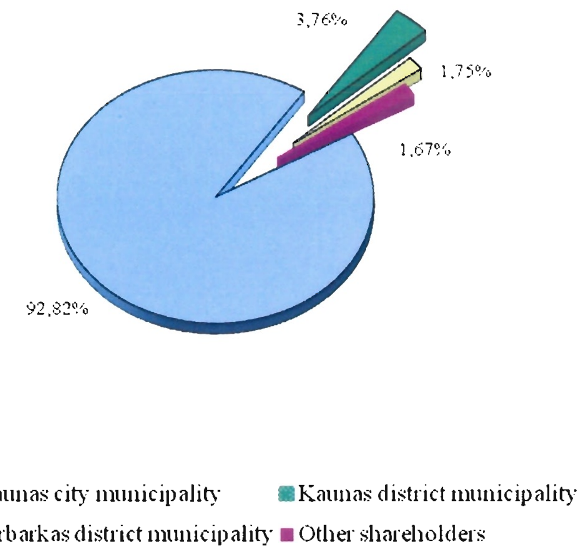
The Issuer's shareholders, whose ownership interest as at 30 June 2010 exceeded 5 % of the Company's authorized share capital (42,731,977 ordinary registered shares) registered on 26 March 2010, are listed in Table 5 with additional data illustrated in Chart 3.

Table 5

Full name of shareholder (company name, type, registered address, code)	Number of ordinary registered shares owned by the shareholder, units	Ownership interest, %	Share of votes attributed to the shares owned, %	The share of votes owned by shareholders and jointly acting persons, %
Kauno city municipality Laisvės Ave. 96, 44251 Kaunas Company code 111106319	39,665,892	92.82	92.82	-
Other shareholders	3.066.085	7,18	7,18	
Total	42,731,977	100	100	-

Chart 3

Shareholders structure as at 30 June 2010



17.1. Shareholders who on 30 June 2010 owned more than 1,7% of shares of Kauno energija AB (42,731,977 ORS) released into public circulation of securities (registration No. A01031430) are presented in Table 6.

Table 6

The name	Type of shares	Number of shares, units	Total value of shares, LTL	Amount of shares (%) from total number of released into public circulation	Share of authorized capital (%)
Kaunas city municipality Laisvės ave. 96, 44251 Kaunas Company code 111106319	Ordinary registered shares	39.665.892	237.995.352	92,82	92,82
Other shareholders	Ordinary registered shares	3.066.085	18.396.510	7,18	7,18
Total		42.731.977	256.391.862	100	100

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

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

On 13 May 2010 the decision to assign a part of the profit in amount of LTL 3.589.486 (according to the draft decision proposed by Kaunas city Council on 13 May 2010) for dividends has been made by the decision of repeated General Meeting of shareholders of the Issuer (dividends paid LTL 0.084 per share). Dividends were paid to shareholders in accordance to the law.

18. Employees

According to the data of 30 June 2010 611 employees are employees in the Group in total. The change of the employee's number during 2010 is presented in Table 7.

Table 7

Number of employees on payroll	Company 31 12 2009	Group 31 12 2009	Company 30 06 2010	Group 30 06 2010
Total:	531	601	544	611
managers	4	6	4	6
specialists	275	301	285	310
workers	252	294	255	295

The education of employees at the end of the period

Table 8

No.	Education level	Company 31 12 2009	Group 31 12 2009	Company 30 06 2010	Group 30 06 2010
1	Secondary (unfinished)	13	15	13	17
2	Secondary	207	248	210	248
3	Post-secondary	86	92	86	91
4	Higher	225	246	235	255
	Total:	531	601	544	611

Average conditional number of employees and average monthly salary (without deducting taxes, at the end of period)

Table 9

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

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

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

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

1. For continuous record of service in the Company employees are granted with additional paid vacations:
   - for 5 years of service - 1 calendar day;
   - for 6 to 10 years of service - 2 calendar days;
   - for over 10 years of service - 3 calendar days;
   - for each subsequent 5 years of service - 1 calendar day;
- Record of service is treated as continuous (in which case additional paid vacation days are granted at the Company), provided the employees used to work for the Lithuanian energy system companies and were transferred to work for the Company on the basis of mutual agreement of employers, i.e. when transfer was carried out in accordance with the Lithuanian Labour Code and the Lithuanian Law on Employment Agreement in effect.

2. The Company's employees have a right to receive additional paid vacation days in the following cases:
- establishment of family relations (marriage) - 3 calendar days;
- death of a close person (one of the parents or one of the spouse's parents, spouse, brother, sister, daughter, son or lawful foster-child) - 3 calendar days;
- childbirth by wife - 1 calendar day;
- marriage of the employee's daughter, son or lawful foster-child - 3 calendar days.

3. Employer's obligations:
- to ensure conditions for preventive medical examination of employees and, if necessary, for rehabilitation treatment, to provide free-of-charge services at the health centre of the Company;
- in case of death of employee, to pay allowance equal to two last month's average monthly salaries at the Company or its branch office, to provide with free-of-charge transport or to cover transportation expenses. The allowance is to be paid to the person who was responsible for the burial;
- in case of death of employee's close person (father, mother, husband or wife), to pay allowance equal to one last month's average monthly salary at the Company or its branch office, to provide with free-of-charge transport or to cover transportation expenses;
- in case of birth of one or more children, to pay allowance equal to 25 per cent of last month's average monthly salary at the Company or its branch office for each child;
- in case of marriage, to pay allowance equal to 25 per cent of last month's average monthly salary at the Company or its branch office;
- for employees who raise three or more children under 16 years of age, widowers (widows) or single parents who raise one or more children under 19 years of age (provided they attend secondary school) and under 21 years of age (provided they are full-time students at post-secondary or higher education institutions), and for employees who take care of other family members with heavy or medium level of disability or work capacity lower than 55 % and family members who reached retirement age and in respect of whom high or average level of special needs was established in accordance with relative laws, once a year to pay allowance equal to 50 per cent of last month's average monthly salary at the Company or its branch office as at the date, on which the request for such allowance was submitted;
- for employees who reached 50 and 60 years of age with continuous record of service at the Company more than 20 years and good performance of duties, based on the order of top manager to award with monetary gift equal to 50 per cent of last month's average salary at the Company or its branch office;

- on the occasions of celebrating the Day of Energy Specialists in Lithuania or the Company's operation anniversaries, the employees who are honoured and worthy to be praised receive a monetary gift of LTL 500;
- in all other cases when material support is required (in case of damages incurred as a result of natural disasters or other reasons that are beyond the employee's control), to pay allowance up to LTL 2,000 based on mutual agreement of authorised representatives who signed the Collective Employment Agreement;
- in case of serious illness of employee or a heavy accident, to pay allowance equal to up to 5 last month's average monthly salaries at the Company or its branch office, based on mutual agreement of authorised representatives who signed the Collective Employment Agreement.

19. Order of changes of Regulations of the Issuer

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

20. Issuer bodies

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

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

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

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

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

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

The audit committee carries out the functions set forth in Article 52 of the Lithuanian Law on Audit.

The Management Board is a collegiate managerial body of the Company, which consists of 7 Management Board members. The Management Board is elected by the Supervisory Board for the term of 4 (four) years. The Supervisory Board has the right to recall the entire Management Board or its individual members prior to the expiry of its term of office. If the individual members are elected, they are elected only for the current Management Board's term of office. The Management Board elects the Chairman of the Board from its members.

The Management Board elects and recalls the General Manager of the Company, determines his/her salary, other employment terms and conditions, confirms his/her job description, motivates or assigns penalties.

The General Manager is the manager of the Company. The manager of the Company is a one-man managerial body of the Company who organises the Company's activity. The authority and responsibilities of the Company's administration members are determined by the order of the General Manager.

21. Members of the collegiate bodies, the company's manager, chief financier

(job position, full name, data on ownership interest in the issuer's authorised share capital and the beginning and end dates of the term of office of every person, information about cash amounts estimated, assets transferred and guarantees issued to these persons by the issuer during the reporting period in total, and average amounts per each member of the collegiate body, manager of the company, and chief financier)

21.1. Data about the members of the Company's Supervisory Board:

As at 30 June 2010, the members of the Company's Supervisory Board were as follows:

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Jonas Koryzna	Supervisory Board chairman	30 July 2007	30 April 2011
Mrs. Jadzė Bartašienė	Supervisory Board member	30 July 2007	30 April 2011
Mr. Stasys Žirgulis	Supervisory Board member	30 July 2007	30 April 2011
Mr. Gediminas Žukauskas	Supervisory Board member	30 July 2007	30 April 2011
Mrs. Edita Gudišauskienė	Supervisory Board member	28 April 2009	30 April 2011
Ms. Orinta Leiputė	Supervisory Board member	28 April 2009	30 April 2011
Mr. Arvydas Padegimas	Supervisory Board member	28 April 2009	30 April 2011

Mr. Jonas Koryzna. Doctor of Engineering. Member of Kaunas City Municipality Council. Member of City Economy and Energy Committee, Chairman of Privatisation Commission. Chairman of the Company's Supervisory Board. Vice-president of Kaunas Chamber of Commerce, Industry and Crafts, member of Kaunas Rotary Club. Mr. Koryzna has no shares of the Company. As at 31 December 2009, he had 70 shares with voting rights in Baltijos Paslaugų Brokeris UAB, and 70 shares with voting rights in RINKA PLIUS UAB. These shareholdings in the above-mentioned companies represent 70 per cent of their share capital and votes.

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

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

Ms. Orinta Leiputė. Member of Kaunas City Municipality Council, Member of the Committee for Development of Culture, Communities and Self-governance. Assistant-secretary for the member of the Lithuanian Seimas Ms. B.Vėsaitė. Assistant at the Lithuanian Academy of Physical Education. Member of the Lithuanian Society of Young Researchers. Lithuanian Social Democratic Party, member of the Council, Presidium, Chairwoman of LSDP Kaunas Division; Lithuanian Union of Social Democratic Women, Deputy Chairman; member of Kaunas Club of Women Politicians MILDA (Initiative by women to improve democracy in Lithuania); member of the Board of Society *Lietuvos Sakaliukų Sąjunga* (children and youth organisation). Ms. Leiputė has no shares of the Company, nor any ownership interest in other companies.

Mr. Arvydas Padegimas. Member of Kaunas City Municipality Council, odontologist at Garliava PSPC UAB Maksvilė. Mr. Padegimas has no shares of the Company, nor any ownership interest in other companies.

Mr. Stasys Žirgulis. Member of Kaunas City Municipality Council. Chairman of the Commission for Conception of Names and Commemoration. Member of Anti-corruption Commission. Member of Member of the Committee for Development of Culture, Communities and Self-governance. Teacher at Vilnius Art Academy, Kaunas Faculty. Member of the Lithuanian Artist Union, Member of the Lithuanian Association of Art. Mr. Žirgulis has no shares of the Company, nor any ownership interest in other companies.

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

During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued to the members of the Supervisory Board.

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

As at 30 June 2010, the members of the Company's Management Board were as follows:

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Vytautas Mikaila	Management Board chairman	3 December 2008	30 April 2011
Mr. Ramūnas Gatautis	Management Board member	27 November 2007	30 April 2011
Mr. Algirdas Vaitiekūnas	Management Board Deputy Chairman	30 April 2004	30 April 2011

Mr. Vykintas Šuksteris	Management Board member	27 November 2007	30 April 2011
Mr. Eugenijus Ušpuras	Management Board member	27 November 2007	30 April 2011
Mr. Juozas Marcalis	Management Board member	21 December 2007	30 April 2011
Mr. Kęstutis Miškinis	Management Board member	31 March 2009	30 April 2011

Mr. Vytautas Mikaila. Doctor of Engineering. MVE Group UAB, Director. Chairman of the Company's management Board since 16 December 2008. Head of the Company's Development and Analysis Division. Mr. Mikaila has no shares of the Company, however, he has 55 % of shares in MVE Group UAB.
During the reporting period, remuneration amounting to LTL 26 thousand (salary) was estimated to the member of the Management Board, however, no bonuses were estimated, nor any assets were transferred or guarantees issued

Mr. Ramūnas Gatautis. Kaunas City Municipality Administration, Deputy Director. Lithuanian Energy Institute, Laboratory of Energy Systems Research, Doctor of Engineering. From 1 August 2008 to 30 January 2009, advisor of the Company's General Manager for strategy issues. The Chairman of the Company's Management Board until 15 December 2008. Member of International Association of Energy Economists. Member of Management Board at Būsto Valda UAB and Panemunės Butų Ūkis. Mr. Gatautis has no shares of the Company, nor any ownership interest in other companies.
During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued to this member of the Management Board.

Mr. Algirdas Vaitiekūnas. Kaunas City Municipality Administration, City's Economy Department, head of Energy Division. Deputy Chairman of the Management Board of the Company. Mr. Vaitiekūnas has no shares of the Company, nor any ownership interest in other companies. On 16 June 2010 the membership of the member of Managing Board of SC "Kauno energija" A. Vaitiekūnas has been suspended by the decision of Supervisory Board for the period of pre-trial investigation (material No. 07-1-00120-09).

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

Mr. Vykintas Šuksteris. AF – Terma UAB, Director; Doctor of Engineering; member of International Association for Energy Economists; member of the Lithuanian Thermotechnical Engineer's Society; President of the Lithuanian Association of Energy Consultants. Mr. Šuksteris has no shares of the Company, nor any ownership interest in other companies.
During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued to this member of the Management Board.

Mr. Eugenijus Ušpuras. Lithuanian Energy Institute, Director. Kaunas University of Technology, Thermal and Nuclear Energy Department, professor; Lithuanian Academy of Sciences, Associate Member. Mr. Ušpuras has no shares of the Company, nor any ownership interest in other companies.
During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued to this member of the Management Board.

Mr. Juozas Marcalis. Assistant of the member of the Lithuanian Seimas Mrs. B. Vėsaitė, Head of Sales and Marketing Department pf JSC "Pastatų priežiūros paslaugos". Mr. Marcalis has no shares of the Company, nor any ownership interest in other companies.
During the reporting period, no remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued to this member of the Management Board.

Mr. Kęstutis Miškinis. Senior specialist in Energetic branch of the Department of City property of Kaunas city munucipality. Mr. Miškinis has no shares of the Company, nor any ownership interest in other companies.

21.3. Data about the Manager and Chief accountant of the Company

Rimantas Bakas. Doctor of Technical sciences. General manager of the Company from 24-11-2008. Education – higher, Kaunas university of technology, 1985, engineer of industry heat energy. Working places during last 10 years and positions held – 01-1999–02-2001 company „Terma ir KO" (from 2000 closed-end company „AF – Terma"), 10-2001–02-2003 vicepresident and executive director, Lithuanian bioenergetics and energy saving association; 03-01-2001 – 18-11-2008 Head of Strategy department at Company. Member of The Board of JSC „Pastatų priežiūros paslaugos". Has no shares of the Company. Does not participate in the capital of other companies.

Violeta Staškūnienė. Chief acccountant of the Company since 27-07-2000, chief accountant since 16-01-2003. Education – higher, Vilniaus University, 1984, work economy, profession – economist. Working places during 10 years and positions held: Chief Accountant of the Company's subsidiary "Kauno energijos paslaugos" (22-06-1998), Company's Deputy Chief Accountant (10-01-2000). Closed end company "Itvizija" chief accountant (1998 till 04-2004), closed-end company "Energijos realizacijos centras" chief accountant (01-2003 till 06-2004). Has 2,641 units of the Company's shares, which make less than 5 % of the authorized capital. Has no presence in capital or management of others companies.

As per I half 2010 a total sum of LTL 91 was accounted for General manager of The Company's and for the Chief Accountant. An average sum accounted for the members is LTL 45.6. And there was no transfers of any asset made or any guarantees provided.

22. All important agreements of which Issuer is a part and which would come into force, would change or end in case of the change of Issuers control as well as their influence with the exception of cases when because of the nature of agreements their revealing would cause damage to the Issuer

None.

23. All agreements of the Issuer and members of its bodies or employees which would involve compensation in case of their resignation or firing without grounding or f their work would end due to the change in Issuers control

None.

24. Information about larger related agreements of the sides

There have been no major separate agreements. The detailed information is presented in Item consolidated companies in 2010 I half-yearly financial reports for explanatory paragraph 22.

25. Important events, which have been during first six months of financial year and their influence on intermediate financial accountability, also information about main risks and unexpectedness to coming six month of financial year.

All main financial data are presented in the 6 months intermediate financial accountability and it‘s explanatory letter.

26. Information on the observance of the Governance code of the companies

Essentially AB “Kauno energija” follows the guidance management code of listed companies approved by the company Nasdaq OMX Vilnius stock exchange.

27. Data on publicly declared information

To comply with the obligation set forth in the applicable legislation regulating the market of securities, the Issuer during the last 6 months declared in public the following information through OMX news publication system, which is used to report announcements all over the European Union. This information was also placed on the Issuer's website. All information is available on Vilnius Stock Exchange website at address http://www.baltic.omxgroup.com/?id=3304, and the Issuer's website at address: http://www.kel.lt/lt/?id=348.

Heading of announcement	Category of announcement	Language	Time
Heat price starting 1 of July, 2010 determined	Notification on material event	En, Lt	22.06.2010 - 16:36
Financial statements with the annual report	Annual information	En, Lt	14.05.2010 - 09:29

Heading of announcement	Category of announcement	Language	Time
The Decisions of the Reconvening General meeting shareholders meeting of JSC "Kauno Energija"	Notification on material event	En, Lt	14.05.2010 - 09:01
The decisions of the general shareholders meeting and activity results of the first quarter, 2010	Interim information	En, Lt	30.04.2010 - 15:21
Reconvening General meeting of JSC "Kauno energija" shareholders and decisions projects	Notification on material event	En, Lt	27.04.2010 - 17:00
General meeting of JSC "Kauno energija" shareholders and decisions projects	Notification on material event	En, Lt	02.04.2010 - 15:38
Information about the new wording of the articles of JSC "Kauno energija"	Notification on material event	En, Lt	30.03.2010 - 11:12
Due to the Vilnius Commercial Arbitration Court decision	Notification on material event	En, Lt	03.03.2010-13:26
The activity result of the 12 months, 2009	Interim information	En, Lt	18.02.2010 - 13:47
The Decisions of the general shareholders meeting of JSC "Kauno energija	Notification on material event	En, Lt	18.02.2010 - 09:46
General meeting of JSC "Kauno energija" shareholders and decisions projects	Notification on material event	En, Lt	22.01.2010 - 14:17
On heat, supplied by JSC „Kauno energija", price application from the 1st February, 2010	Notification on material event.	En, Lt	22.01.2010 - 11:54

General director   Rimantas Bakas

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

JSC „KAUNO ENERGIJA“

CONSOLIDATED AND COMPANY’S FINANCIAL STATEMENTS
FOR **THE FIRST HALF OF THE YEAR 2010**
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS

Balance Sheets

		Group		Company	
	Notes	As of 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
ASSETS					
Non-current assets					
Intangible assets	3	856	1.242	841	1.222
Property, plant and equipment	4				
Land and buildings		29.042	29.539	27.543	28.012
Structures and machinery	1	251.866	251.902	251.842	251.873
Vehicles		546	652	451	526
Equipment and tools		5.268	6.475	5.211	6.404
Construction in progress and prepayments		21.488	16.134	21.488	16.134
Total property, plant and equipment		308.210	304.702	306.535	302.949
Deferred tax asset	22	-	-	-	-
Non-current financial assets					
Investments into subsidiaries	1	-	-	6.053	6.053
Non-current accounts receivable	5	68	61	257	109
Other financial assets	6	433	433	433	433
Total non-current financial assets		501	494	6.743	6.595
Total non-current assets		**309.567**	**306.438**	**314.119**	**310.766**
Current assets					
Inventories and prepayments					
Inventories	7	5.725	5.372	5.589	5.226
Prepayments		549	616	665	766
Total inventories and prepayments		6.274	5.988	6.254	5.992
Current accounts receivable	8				
Trade receivables		40.783	59.828	40.513	59.513
Other receivables		10.561	4.361	10.690	4.647
Total accounts receivable		51.344	64.189	51.203	64.160
Cash and cash equivalents	9	2.247	3.131	2.197	3.094
Total current assets		**59.865**	**73.308**	**59.654**	**73.246**
Total assets		**369.432**	**379.746**	**373.773**	**384.012**

(cont'd on the next page)

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

Balance Sheets (cont'd)

		Group		Company	
	Notes	As of 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
EQUITY AND LIABILITIES					
Equity					
Share capital	1	256.392	255.710	256.392	255.710
Legal reserve	10	448	233	448	-
Other reserve		-	-	-	-
Retained earnings (deficit)					
Total comprehensive income (accumulated loss) for the current year		17.683	6.404	17.771	6.928
Total comprehensive income (accumulated loss) for the previous years		(3.865)	(6.465)	8	(2.883)
Total retained earnings (deficit)		13.818	(61)	17.779	4.045
Total equity		**270.658**	**255.882**	**274.619**	**259.755**
Liabilities					
Non-current liabilities					
Non-current borrowings	11	38.491	37.198	38.491	37.198
Financial lease obligations	12	44	44	-	-
Deferred tax liability		2.030	2.030	2.699	2.699
Grants (deferred income)	13	12.665	11.832	12.665	11.832
Employee benefit liability	14	1.820	1.820	1.820	1.820
Other non-current liabilities		646	735	647	735
Total non-current liabilities		**55.696**	**53.659**	**56.322**	**54.284**
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12	6.468	12.935	6.442	12.884
Current borrowings	11	10.047	9.663	10.047	9.663
Trade payables	15	21.411	41.502	21.494	41.529
Payroll-related liabilities		2.456	1.812	2.193	1.660
Advances received		1.188	1.216	1.188	1.216
Taxes payable		71	1.316	32	1.259
Derivative financial instruments	16	740	787	740	787
Current portion of employee benefit liability	14	457	656	457	656
Other current liabilities		240	318	239	319
Total current liabilities		**43.078**	**70.205**	**42.832**	**69.973**
Total liabilities		**98.774**	**123.864**	**99.154**	**124.257**
Total equity and liabilities		**369.432**	**379.746**	**373.773**	**384.012**

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

General Manager	Rimantas Bakas		23 July 2010
Chief Accountant	Violeta Staškūnienė		23 July 2010

Statements of Comprehensive Income

	Notes	Group II quater, 2010	I half, 2010	II quater, 2009	I half, 2009	2009	2008
Operating income							
Sales income	17	28.458	164.536	31.108	178.039	280.411	205.974
Other operating income	18	439	935	293	554	1.114	1.337
Total operating income		**28.897**	**165.471**	**31.401**	**178.593**	**281.525**	**207.311**
Operating expenses							
Fuel and heat purchased		(25.177)	(116.773)	(21.524)	(124.374)	(197.698)	(137.604)
Salaries and social security	14	(4.977)	(10.110)	(5.777)	(9.985)	(23.236)	(24.999)
Raw materials		(385)	(736)	(417)	(860)	(1.758)	(2.404)
Taxes other than income tax		(1.032)	(2.066)	(873)	(1.859)	(4.238)	(3.462)
Electricity		(466)	(1.352)	(442)	(1.468)	(2.558)	(2.891)
Depreciation and amortisation	3,4	(3.975)	(7.954)	(4.115)	(8.365)	(16.688)	(18.982)
Repairs and maintenance		(353)	(860)	(649)	(1.028)	(6.351)	(5.160)
Water		(143)	(310)	(187)	(257)	(692)	(517)
Change in allowance for accounts receivable	8	(981)	(1.467)	(1.126)	(1.466)	(6.524)	1
Change in allowance for inventories	7					433	181
Petrašiūnai power plant operator expenses	1	(340)	(680)	(585)	(1.170)	(1.925)	(2.184)
Other expenses		(2.154)	(4.863)	(2.219)	(4.731)	(8.908)	(10.760)
Other operating expenses	18	(228)	(674)	(224)	(373)	(825)	(1.363)
Total operating expenses		**(40.211)**	**(147.845)**	**(38.138)**	**(155.936)**	**(270.968)**	**(210.144)**
Operating profit		**(11.314)**	**17.626**	**(6.737)**	**22.657**	**10.557**	**(2.833)**
Income from financial and investment activity	19	529	842	426	692	1.576	1.281
Expenses from financial and investment activity	20	(119)	(785)	(1.050)	(2.112)	(3.611)	(3.343)
Net profit for financial and investment activity		**410**	**57**	**(624)**	**(1.420)**	**(2.035)**	**(2.062)**
Profit before tax		**(10.904)**	**17.683**	**(7.361)**	**21.237**	**8.522**	**(4.895)**
Income tax						(2.118)	(660)
Net profit		**(10.904)**	**17.683**	**(7.361)**	**21.237**	**6.404**	**(4.235)**
Basic earnings per share (LTL)	21	(0,26)	0,41	(0,37)	1,07	0,22	(0,21)

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

General Manager	Rimantas Bakas		23 July 2010
Chief Accountant	Violeta Staškūnienė		23 July 2010

Statements of Comprehensive Income

	Notes	Company II quater, 2010	I half, 2010	II quater, 2009	I half, 2009	2009	2008
Operating income							
Sales income	17	28.110	163.839	31.051	177.930	279.548	205.233
Other operating income	18	387	857	269	515	1.164	1.322
Total operating income		**28.497**	**164.696**	**31.320**	**178.445**	**280.712**	**206.555**
Operating expenses							
Fuel and heat purchased		(25.177)	(116.773)	(21.524)	(124.374)	(197.698)	(137.604)
Salaries and social security	14	(4.683)	(9.534)	(5.358)	(9.155)	(21.418)	(22.396)
Raw materials		(345)	(665)	(286)	(791)	(1.507)	(1.991)
Taxes other than income tax		(1.025)	(2.051)	(861)	(1.836)	(4.177)	(3.402)
Electricity		(463)	(1.345)	(438)	(1.457)	(2.539)	(2.863)
Depreciation and amortisation	3,4	(3.957)	(7.914)	(4.072)	(8.279)	(16.510)	(18.784)
Repairs and maintenance		(295)	(860)	(649)	(1.028)	(6.619)	(5.181)
Water		(143)	(309)	(185)	(253)	(686)	(502)
Change in allowance for accounts receivable	8	(981)	(1.467)	(1.126)	(1.466)	(6.524)	1
Change in allowance for inventories	7					433	181
Heating and hot water systems supervision expenses		(141)	(285)	(399)	(852)	(1.141)	(2.485)
Petrašiūnai power plant operator expenses	1	(340)	(680)	(585)	(1.170)	(1.925)	(2.184)
Other expenses		(2.105)	(4.772)	(2.166)	(4.630)	(8.708)	(10.248)
Other operating expenses	18	(179)	(329)	(220)	(362)	(840)	(1.357)
Total operating expenses		**(39.834)**	**(146.984)**	**(37.969)**	**(155.653)**	**(269.859)**	**(208.815)**
Operating profit		**(11.337)**	**17.712**	**(6.649)**	**22.792**	**10.853**	**(2.260)**
Income from financial and investment activity	19	529	842	426	692	1.576	1.281
Expenses from financial and investment activity	20	(118)	(783)	(1.049)	(2.109)	(3.606)	(3.800)
Net profit for financial and investment activity		**411**	**59**	**(623)**	**(1.417)**	**(2.030)**	**(2.519)**
Profit before tax		(10.926)	17.771	(7.272)	21.375	8.823	(4.779)
Income tax						(1.895)	(436)
Net profit		**(10.926)**	**17.771**	**(7.272)**	**21.375**	**6.928**	**(4.343)**
Basic earnings per share (LTL)	21	(0,26)	0,42	(0,37)	1,07	0,16	(0,22)

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

General Manager	Rimantas Bakas		23 July 2010
Chief Accountant	Violeta Staškūnienė		23 July 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)		-	-	-	21.237	21.237
Transferred from reserves	10	-	(2.808)	-	2.808	-
Balance as of 30 June 2009		**119.510**	**233**	**-**	**14.772**	**134.515**
Increase in share capital	1	136.200	-	-	-	136.200
Total comprehensive income (loss)		-	-	-	(14.833)	(14.833)
Balance as of 31 December 2009		**255.710**	**233**	**-**	**(61)**	**255.882**
Total comprehensive income		-	-	-	17.683	17.683
Transferred from reserves	10	-	(233)	-	233	-
Formed reserves	10	-	448	-	(448)	-
Dividends		-	-	-	(3.589)	(3.589)
Increase in share capital	1	682	-	-	-	682
Balance as of 30 June 2010		**256.392**	**448**	**-**	**13.818**	**270.658**

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)		-	-	-	21.375	21.375
Transferred from reserves	10	-	(2.808)	-	2.808	-
Balance as of 30 June 2009		**119.510**	**-**	**-**	**18.492**	**138.002**
Increase in share capital	1	136.200	-	-	-	136.200
Total comprehensive income (loss)		-	-	-	(14.447)	(14.447)
Balance as of 31 December 2009		**255.710**	**-**	**-**	**4.045**	**259.755**
Total comprehensive income (loss)					17.771	17.771
Formed reserves	10		448		(448)	
Dividends		-	-	-	(3.589)	**(3.589)**
Increase in share capital	1	682	-	-		682
Balance as of 30 June 2010		**256.392**	**448**	**-**	**17.779**	**274.619**

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

General Manager	Rimantas Bakas	23 July 2010
Chief Accountant	Violeta Staškūnienė	23 July 2010

Statements of Cash Flows

	Group		Company	
	2010 I half	**2009 I half**	**2010 I half**	**2009 I half**
Cash flows from (to) operating activities				
Net profit (loss)	**17.683**	**21.237**	**17.771**	**21.375**
Adjustments for non-cash items:	**9.627**	**9.922**	**9.538**	**9.812**
Depreciation and amortisation	8.697	8.792	8.609	8.706
Write-offs and change in allowance for accounts receivable	1.467	1.466	1.467	1.466
(Profit) loss from sale and write-off of property, plant and equipment	(4)	75	(4)	73
Accruals	(161)	(1.443)	(160)	
Employee benefit liability				(1.462)
(Amortisation) of grants	(315)	(378)	(315)	(378)
Derivative financial instruments	(47)	297	(47)	297
Interest expenses	758	1.695	756	1.692
Elimination of other financial and investing activity results	(768)	(582)	(768)	(582)
Changes in working capital:	**(9.779)**	**(36.277)**	**(9.682)**	**(36.207)**
Decrease in inventories	(353)	(501)	(363)	(384)
(Increase) in prepayments	67	(185)	101	(201)
(Increase) in trade receivables	17.578	8.723	17.533	9.078
(Increase) decrease in other receivables	(6.200)	816	(6.043)	892
Increase (decrease) in other non-current liabilities	12	(36)	12	(36)
Increase (decrease) in current trade payables and advances received	(20.119)	(44.784)	(20.063)	(45.190)
Increase in payroll-related liabilities	1.101	708	533	636
(Decrease) in other liabilities to budget	(1.245)	(735)	(1.227)	(717)
Increase in other current liabilities	(620)	(283)	(165)	(285)
Net cash flows from operating activities	**17.531**	**(5.118)**	**17.627**	**(5.020)**

(cont'd on the next page)

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

Statements of Cash Flows (cont'd)

	Group		Company	
	2010 I half	**2009 I half**	**2010 I half**	**2009 I half**
Cash flows from investing activities				
(Acquisition) of tangible and intangible assets	(9.994)	(8.125)	(9.989)	(8.112)
Proceeds from sale of tangible assets	9	87	9	(44)
Penalty interest and fines received	784	688	784	688
(Increase) in cash flows from non-current accounts receivable	(7)		(148)	-
Interest received	10	4	10	4
Net cash flows from investing activities	**(9.198)**	**(7.346)**	**(9.334)**	**(7.464)**
Proceeds from loans	22.320	16.732	22.320	16.732
(Repayment) of loans	(27.085)	(3.987)	(27.085)	(3.987)
Interest (paid)	(812)	(1.685)	(810)	(1.682)
Financial lease (payments)	(25)	(44)		(20)
Fine (paid)	(26)	(120)	(26)	(120)
Dividends	(3.589)		(3.589)	
Net cash flows from financing activities	**(9.217)**	**10.896**	**(9.190)**	**10.923**
Net (decrease) increase in cash and cash equivalents	**(884)**	**(1.568)**	**(897)**	**(1.561)**
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	**2.247**	**2.048**	**2.197**	**2.043**

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

General Manager	Rimantas Bakas		23 July 2010
Chief Accountant	Violeta Staškūnienė		23 July 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 Mach 2010 and of 31 December2009 the shareholders of the Company were as follows:

	As of 30 June 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
	42.731.977	100,00	42.618.382	100,00

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

On 26 June 2008 in the Company's shareholders meeting it was decided to increase the share capital by issuing 200,000 ordinary shares with the par value LTL 6 each. Priority right to acquire issued shares was granted to Jurbarkas district municipality council. The issue price of shares is equal to their nominal value.

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 LTLi 256,392 thousand) issuing 113,595 ordinary shares with the par value LTL 6 each. The issue price of shares is equal to their nominal value. A building of a boiler house located in Kaunas city, owned by Kaunas City Municipality, and engineering networks located in Jurbarkas city, owned by Jurbarkas Region Municipality, were received as a payment in kind for these shares.

All shares were fully paid as of 30 June 2010.

On 13 May 2010 The Annual General Meeting of Shareholders has made a decision to pay LTL 3589 thousand in dividends from the profit of the year 2009. Dividends were paid in accordance with law. The part of dividends which was not paid without a company's fault is accounted in other current liabilities.

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	(147)	5.588	Maintenance of heating systems

As of 30 June 2010 accumulated impairment loss on investment in UAB Pastatų Priežiūros Paslaugos amounted to LTL 465 thousand (31 December 2009: LTL 465 thousand) were accounted in the Company's financial statements.

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, 1 regional boiler-house in Jurbarkas city, 14 isolated networks and 44 local gas burning boiler-houses in Kaunas.

Total heat and electricity generation capacity is 497.3 MW and 8.75 MW, respectively, out of which 254.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. 27 MW of heat generation capacity is located in Jurbarkas city. The total Company's power generation capacity is 506.05 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 30 June 2010 the average number of employees at the Group was 605 (629 employees in 2009). In 30 June 2009 the average number of employees at the Company was 541 (569 employees in 2009).

On 19 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. A working group for negotiations with JSC Fortum Heat Lietuva formed.

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.

<u>Financial assets or financial liabilities designated at fair value through profit or loss</u>
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.

<u>Held-to-maturity investments</u>
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.

<u>Loans and receivables</u>
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.

<u>Available-for-sale investments</u>
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 deductable. The tax rates used to compute the income tax expenses are those that are enacted by the balance sheet date. In 2009 the income tax rate in Lithuania was 20 % (15% in 2008). Starting 1 January 2010 a new tax rate of 15% is to be applied.

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

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

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

2.17. 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 half would be higher by LTL 1,786 thousand and property plant and equipment balance as at 30 June 2010 would be lower by LTL 7,859 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 accouting 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 30 June 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 contrinbution in-kind. Market value of assets estimated upon their transfer by local independent qualified valuers using depreciated replacement costs method amounted to LTL 136 mln, however, it was not subject to adequate profitability test as required by International Valuation Standards. Value in use of assets received as a contribution in kind estimated using future discounted cashflows approximates LTL 23 mln as at 31 December 2009. Significant difference between 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 30 June 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 futher information on segments has not been disclosed in these financial statements.

2.24. Contingencies

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

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

2.25. Subsequent events

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

2.26. Offsetting and comparative figures

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

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 2.965 thousand as of 30 June 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 30 June 2010 amounts to LTL 8.365 thousand and LTL 8.277 thousand, respectively (LTL 16.965 thousand and LTL 16.798 thousand in 2009). The amounts of LTL 7.622 thousand and LTL 7.582 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 77.078 thousand were fully depreciated as of 30 June 2010 (LTL 78.905 thousand as of 31 December 2009) but were still in active use.

As of 30 June 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 30 June 2010 property, plant and equipment of the Group and the Company with the net book value of LTL 113.926 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 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Long-term loans granted to the Company's employees	67	61	67	61
Other	1		190	48
	68	61	257	109

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

6. Other financial assets

	Group		Company	
	As of 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Available-for-sale financial assets				
Ordinary shares – unquoted	433	433	433	433

7. Inventories

	Group		Company	
	As of 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Technological fuel	3.408	3.429	3.408	3.429
Spare parts	1.335	1.197	1.335	1.047
Materials	1.190	954	1054	958
	5.933	5.580	5.797	5.434
Valuation allowance at the end of the year	(208)	(208)	(208)	(208)
	5.725	5.372	5.589	5.226

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 30 June 2010 amounted to LTL 208 thousand (LTL 208 thousand as of 31 December 2009).

Changes in the valuation allowance for inventories for the I half 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 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Trade receivables, gross	67.043	85.005	66.773	84.690
Less: impairment of doubtful receivables	(26.260)	(25.177)	(26.260)	(25.177)
Trade receivables, net	40.783	59.828	40.513	59.513

Change in impairment of doubtful receivables in the half 2010 and 2009 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 30 June 2010 trade receivables with the nominal value of LTL 26.260 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	**19.480**
Used	(856)
Additional allowance formed	6.553
Balance as of 31 December 2009	**25.177**
Additional allowance formed	1083
Balance as of 30 June 2010	**26.260**

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 17 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 30 June 2010 and of 31 December 2009 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2010	7.484	4.907	18.781	5.538	389	3.684	40.783
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 30 June 2010 and 31 December 2009 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2010	7.214	4.907	18.781	5.538	389	3.684	40.513
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 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Taxes	4.930	2.806	4.930	2.806
Other receivables	5.631	1.555	5.760	1.841
Total	10.561	4.361	10.690	4.647

As of 30 June 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 (maintenance of transportation and permanent heating systems as well as manifolds).

The ageing analysis of the Group's other receivables (excluding taxes) as of 30 June 2010 and of 31 December 2009 is as follows:

		Other receivables past due but not impaired					
	Other receivables neither past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2010	469	691	3.952	336	169	14	5.631
2009	1.490	40	11	8	6	-	1.555

The ageing analysis of the Company's other receivables (excluding taxes) as of 30 June 2010 and 31 December 2009 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but not impaired: Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2010	598	691	3.952	336	169	14	5.760
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 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Cash in transit	1.246	1.557	1.246	1.557
Cash at bank	968	1.541	921	1.505
Cash on hand	33	33	30	32
	2.247	3.131	2.197	3.094

The Group's and the Company's accounts in national currency in banks amounting to LTL 591 thousand as at 30 June 2010 (31 December 2009 – LTL 1.327 thousand) are pledged as collateral for the loans (Note 11).

10. Reserves

<u>Legal and other reserves</u>

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.

On 13 May 2010 the company transferred LTL 448 thousand from retained earnings to legal reserve by the decision of shareholders.

11. Borrowings

	Group		Company	
	As of 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Non-current borrowings				
Non-current borrowings	38.491	37.198	38.491	37.198
Current borrowings				
Current portion of non-current borrowings	6.442	12.884	6.442	12.884
Current borrowings (including credit line)	9.638	5.964	9.638	5.964
Other interest bearing liabilities	409	3.699	409	3.699
	16.489	22.547	16.489	22.547
Total	54.980	59.745	54.980	59.745

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

	Group		Company	
	As of 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
2010	6.442	12.884	6.442	12.884
2011	14.247	14.338	14.247	14.338
2012	9.781	9.781	9.781	9.781
2013	6.197	4.981	6.197	4.981
2014	5.053	4.932	5.053	4.932
2015	2.008	1.961	2.008	1.961
2016	850	850	850	850
2017	355	355	355	355
	44.933	50.082	44.933	50.082

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 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Current borrowings	3,4	3,6	3,4	3,6
Non-current borrowings	3,5	3,5	3,5	3,5

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

	Group		Company	
	As of 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Currency of the loan:				
EUR	41.330	50.863	41.330	50.863
LTL	13.493	8.882	13.493	8.882
	54.823	59.745	54.823	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 30 June 2010 the outstanding balance of the loan amounted to LTL 1,674 thousand of which LTL 416 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 3,258 thousand (the equivalent of LTL 11,250 thousand) as of 30 June 2010, of which LTL 1,250 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 30 June 2010 the outstanding balance of the loan amounted to LTL 4,568 thousand, of which LTL 420 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 30 June 2010 the outstanding balance of the loan amounted to EUR 658 thousand (the equivalent of LTL 2,273 thousand), of which LTL 197 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 30 June 2010 the outstanding balance of the loan amounted to EUR 468 thousand (the equivalent of LTL 1,616 thousand), of which LTL 124 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 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 30 June 2010 the outstanding balance of the investment credit amounted to EUR 477 thousand (the equivalent of LTL 1,646 thousand), of which LTL 175 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 30 June 2010 the outstanding balance of the investment credit amounted to EUR 1,116 thousand (the equivalent of LTL 3,855 thousand), of which LTL 100 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 30 June 2010 the outstanding balance of the loan amounted to EUR 1,825 thousand (the equivalent of LTL 6,300 thousand), of which LTL 2,100 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 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 30 June 2010 the Group and the Company's balances of used credit line was LTL 7,000 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). On 31 May 2010 the validity term of the agreement was extended until 23 June 2010 and on 22 June 2010 the validity term of the agreement was extended until 30 May 2011. As at 30 June 2010 the used amount of the overdraft by the Group and the Company was EUR 764 thousand (LTL 2.638 thousand) (31 December 2009: LTL 4,380 thousand). The overdraft bears 1-month EURIBOR plus 3 % annual interest.

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 30 June 2010 the Group and the Company's balance of used loan was EUR 2,357 thousand (the equivalent of LTL 8.138 thousand), of which LTL 1.660 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 30 June 2010 the balance of used loan was EUR 1.046 thousand (the equivalent of LTL 3.613 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.

On 9 April 2010 the Group and the Company signed a credit agreement with the Lithuanian Ministry of Finance regarding the loan of EUR 2410 thousand (LTL 8,323 thousand equivalent). The term of repayment of the last part of the loan is 15 March 2034. The loan is still not used as of date of these statements. The loan bears 3.948 % annual interest rate until 31 March 2019.

On 21 June 2010 the Group and the Company signed a credit agreement with Swedbank AB regarding the loan of EUR 649 thousand (LTL 2,240 thousand equivalent). The term of repayment of the last part of the loan is 21 June 2017. The loan is still not used as of date of these statements. The loan bears 6-month EURIBOR plus 4 % annual 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 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Vehicles	54	80	-	-

As of 30 June 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 30 June 2010 are as follows:

	Group		Company	
	As of 30 June 2010	As of 31 December 2009	As of 30 June 2010	As of 31 December 2009
Within one year	27	54	-	-
From one to five years	45	45	-	-
Total financial lease obligations	72	99	-	-
Interest	(2)	(4)	-	-
Present value of financial lease obligations	70	95	-	-
Financial lease obligations are accounted for as:				
- current	26	51	-	-
- non-current	44	44	-	-

13. Grants (deferred income)

	Group		Company	
	As of 30 June 2010	As of 31 December 2009	As of 30 June 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	1.148	2.209	1.148	2.209
Amortisation	(315)	(630)	(315)	(630)
Balance at the end of the reporting period	**12.665**	**11.832**	**12.665**	**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 30 June 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 3,357 thousand by 30 June 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 30 June 2010	**As of 31 December 2009**	**As of 30 June 2010**	**As of 31 December 2009**
Non-current employee benefit liability	1.820	1.820	1.820	1.820
Current employee benefit liability	457	656	457	656
	2.277	2.476	2.277	2.476

Total amount of the Group and the Company employee benefit expenses is LTL 199 thousand during the period which ended 30 June 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 30 June 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 1.825 thousand (the equivalent of LTL 6.300 thousand) as at 30 June 2010 (EUR 2,433 thousand (the equivalent of LTL 8,401 thousand) as at 31 December 2009). Market value of swap amounted to LTL 78 thousand as at 30 June 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 3.258 thousand (the equivalent of LTL 11.250 thousand) as at 30 June 2010 (EUR 3,620 thousand (the equivalent of LTL 12,500 thousand) as at 31 December 2009). Market value of swap amounted to LTL 662 thousand as at 30 June 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. In the year 2010 a part of the Kaunas' inhabitants chose the company as the supplier of hot water. 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 half	2009	2010 I half	2009
Heat energy	163017	277.001	163.050	277.053
Hot water supply	139		139	
Maintenance of the heating and hot water supply systems of buildings	1020	2.365	290	1.450
Electricity energy	148	393	148	393
Revenue from sale of emission rights		117		117
Maintainance of manifolds	212	535	212	535
	164.536	280.411	163.839	279.548

18. Other activities income and expenses

	Group		Company	
	2010 I half	2009	2010 I half	2009
Income from other operating activities				
Miscallenious services	717	977	645	903
Materials sold	170	93	170	132
Gain from sale of non-current assets	6	4	6	96
Other	42	40	36	33
	935	1.114	857	1.164
Expenses from other operating activities				
Cost of miscallenious services	(648)	(567)	(306)	(545)
Cost of materials sold	(21)	(168)	(21)	(208)
Loss from sale of non-current assets	0	(5)	0	(6)
Write off of non-current assets	(2)	(81)	(2)	(81)
Other	(3)	(4)	-	-
	(674)	(825)	(329)	(840)

19. Finance income

	Group		Company	
	2010 I half	2009	2010 I half	2009
Income from financial and investment activities				
Interest from late payment of accounts receivable	784	1.571	784	1.571
Bank interest receivable	2	3	2	3
Dividends received	47	-	47	-
Other	9	2	9	2
	842	1.576	842	1.576

20. Finance costs

	Group		Company	
	2010 I half	2009	2010 I half	2009
Finance costs				
Interest on bank loans and overdrafts	(758)	(3.269)	(756)	(3.264)
Change in fair value of derivative financial instruments		(220)		(220)
Impairment loss of investment in subsidiary	-	-	-	-
Late interest penalties	(27)	(121)	(26)	(121)
Other		(1)	(1)	(1)
	(785)	(3.611)	(783)	(3.606)

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 half	2009
Total comprehensive income (loss)	17.683	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)	42.702	29.376
Basic and diluted earnings (loss) per share (LTL)	0,41	0,22

22. Financial assets and liabilities and risk management

<u>Credit risk</u>

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

	30 June 2010	
	Group	Company
A	835	788
A+		
AA-	90	90
B+	10	10
-	33	33
	968	921

*- 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	+174	(34)
LTL	- 174	34
EUR	+ 47	(17)
EUR	- 47	17
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 30 June 2010 were 1.39 and 1.26 respectively (1.04 and 0.97 as of 31 December 2009). The Company's liquidity and quick ratios as of 30 June 2010 were 1.40 and 1.26, 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.

The table below summarises the maturity profile of the Group's financial liabilities as of 30 June 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	3.923	3.484	47.126	2.911	57.444
Trade payables	16.585	4.826	12	-	21.423
Balance as of 30 June 2010	**20.508**	**8.310**	**47.138**	**2.911**	**78.867**

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 30 June 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	3.909	3.471	47.081	2.911	57.372
Trade payables	16.668	4.826	12	-	21.506
Balance as of 30 June 2010	**20.577**	**8.297**	**47.093**	**2.911**	**78.878**
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 30 June 2010 were as follows (stated in LTL):

	Group		**Company**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	53.648	40.789	53.646	40.499
EUR	11	41.336	11	41.336
	53.659	**82.125**	**53.657**	**81.835**

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

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

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

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

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, 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 30 June 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 30 June 2010	**As of 31 December 2009**	**As of 30 June 2010**	**As of 31 December 2009**
Non-current liabilities (including deferred tax and grants)	55.696	53.659	56.322	54.284
Current liabilities	43.078	70.205	42.832	69.973
Liabilities	98.774	123.864	99.154	124.257
Equity	270.658	255.882	274.619	259.755
Debt* to equity ratio	**36,49**	**48,41**	**36.11**	**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 30 June 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 30 June 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 30 June 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 2010 and 2009 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 half 2010	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	88	16.911	20.021	50
Jurbarkas district municipality	0	1.208	46	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 half 2010	**Purchases**	**Sales**	**Receivables**	**Payables**
Pastatų priežiūros paslaugos UAB	586	65	478	196

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

Remuneration of the management and other payments

As at 30 June 2010 the Group's and the Company's management team comprised 6 and 4 persons (6 and 4 persons as of 31 December 2009).

	Group		**Company**	
	I half 2010	**2009**	**I half 2010**	**2009**
Key management remuneration	199	494	151	338
Post-employment benefits paid	0	93	0	93

	Group		**Company**	
	As of 30 June 2010	**As of 31 December 2009**	**As of 30 June 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. Non balance sheet events

On 19 July 2010, the Group and the Company signed the agreement on the financing of the project "The development of Centralised Heat Networks in Kaunas City building a new heat supply circuit (heat supply networks from A. Juozapaviciaus Ave. 23A to A. Juozapaviciaus Ave. 90)" according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after the terms and conditions of the agreement are fulfilled.

On 19 July 2010, the Group and the Company signed the agreement on the financing of the project "Modernisation of Kaunas integrated networks Žaliakalnis heat-main")" according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,788 thousand after the terms and conditions of the agreement are fulfilled.