AB KAUNO ENERGIJA

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 PREPARED
ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

Ernst & Young Baltic UAB
Subačiaus g. 7
P.d. 2649
LT-01008 Vilnius Lietuva
Tel. (8 5) 274 22 00
Faks. (8 5) 274 23 33
Vilnius@lt.ey.com
www.ey.com/lt

Juridinio asmens kodas [illegible]
PVM mokėtojo kodas [illegible]
Registras [illegible]

Ernst & Young Baltic UAB
Subačiaus 7
P.O. Box 2649
LT-01008 Vilnius Lithuania
Tel. +370 5 274 2200
Fax +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com/lt

Code of legal person [illegible]
VAT payer code [illegible]
Register of Legal Persons

Independent auditor's report to the shareholders of AB Kauno Energija

Report on the Financial Statements

We have audited the accompanying 2007 financial statements of AB Kauno Energija, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Kauno Energija and subsidiary UAB Pastatų Priežiūros Paslaugos (hereinafter the Group) which comprise the balance sheets as of 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB Kauno Energija and the Group as of 31 December 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Annual Report for the year ended 31 December 2007 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 29 February 2008.

JSC KAUNO ENERGIJA
CONSOLIDATED ANNUAL REPORT OF THE YEAR 2007

CONTENT

1. Period under review for which consolidated annual report is prepared

JSC Kauno Energija consolidated annual report is prepared for the year 2007.

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

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

The main data about the Company:

Name of the company:	Joint Stock Company Kauno Energija
Legal-organizational form:	Joint Stock Company
Address:	Raudondvario 84, 47179 Kaunas - 21
Code of the legal person:	235014830
Telephone number:	(+370 37) 30 56 50
E mail:	info@kaunoenergija.lt
Webpage:	www.kaunoenergija.lt
Fax number:	(+370 37) 30 56 22
Registration date and place:	22 August 1997, Kaunas, Order No. 513
Register manager:	Kaunas subsidiary of State enterprise Register Centre
VAT code:	LT350148314

Authorized capital amounts to 118,310,292 LTL and is divided into 19,718,382 ordinary registered shares of 6 LTL nominal value.

Main data about the daughter company:

Name of the company:	Closed-end company Pastatų Priežiūros Paslaugos
Legal - organizational form:	Closed-end company
Address:	Savanorių 347, 49423, Kaunas - 43
Telephone number:	(+370 37) 30 59 59
E-mail:	info@kaunoenergija.lt
Webpage:	www.p-p-p.lt
Fax number:	(+370 37) 31 18 77
Registration date and place:	1 July 2006, Kaunas
Code of the legal person:	300580563
Register manager:	Kaunas subsidiary of State enterprise Register Centre
VAT code:	LT100002506015

Authorized capital amounts to 6,518,000 LTL and is divided into 65,180 ordinary registered shares of 100 LTL nominal value.

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

The nature of the main activity of the Group – production and services. JSC Kauno Energija is the patronized company of the Group. The Company produces and sells heat energy to consumers in Kaunas and Jurbarkas cities and in part of Kaunas and Marijampolė administrative districts. Also in small amount it produces electric energy in Kaunas city and Kaunas district. The Group and the Company carries out supervision of lodging heat and hot water supply systems, heating points equipment, carries out the supervision of building constructions and elements, cold water supply, leakage elimination and drainage systems, electricity supply system and performs maintenance works, provides services for natural and legal persons in the supervision of heat economy. The Group and the Company performs licensed activity through obtainance of appropriate licences.

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

On 1 April 2003 the Issuer service agreement with joint stock company SEB Bankas (code of the enterprise 1202123, Gedimino ave. 12, Vilnius), represented by the Finance markets department, and was signed.

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)

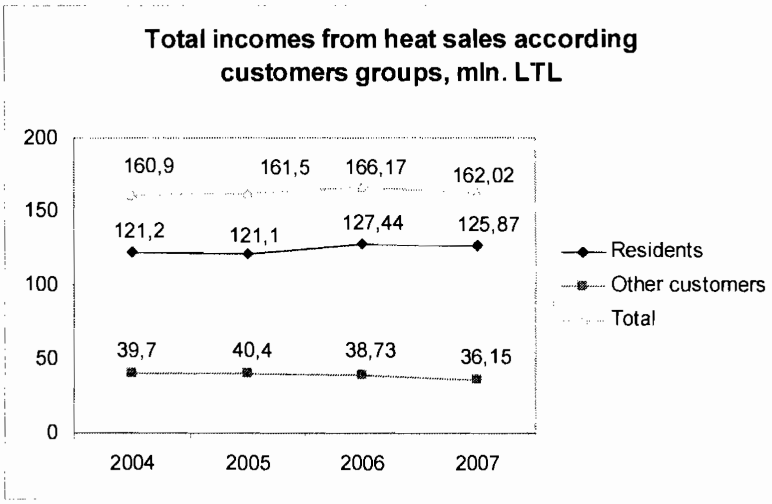
The nominal value of Issuer's 18,968,382 units of ordinary registered shares (VP ISIN code LT0000123010) is – 113,810,292 LTL. They are included into Vilnius Stock Exchange Baltic additional trade list.

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

JSC Kauno Energija is the patronized company of the Group. The Company produces and sells heat energy to consumers in Kaunas city and in a part of Kaunas, Marijampolė and Jurbarkas administrative districts. Also in small amount it produces electric energy in Kaunas city and Kaunas district. The Group and the Company carries out supervision of lodging heat and hot water supply systems, heating points equipment, carries out the supervision of building constructions and elements, cold water supply, leakage elimination and drainage systems, electricity supply system and performs maintenance works, provides services to natural and legal persons in the supervision of heat economy. The Group and the Company performs licensed activity through obtainance of appropriate licenses.

In 2007 the Group shared about 90 % of district heating market in Kaunas city, 95 % in Jurbarkas city and 52.59 % of the lodging heat and hot water supply systems, heating points equipment market in Kaunas city. 2,958 companies and 115,160 thousand apartments are connected to the Company's integrated and local heat supply network.

Heat consumers conditionally are grouped into consumer groups: residents and other consumers. In 2007 the Company's heat sales, compared to 2006, decreased because of the decreased heat demand which was caused by the higher heating season average outdoor temperature and reached 162.02 mln. LTL.



In 2007 the Group's loss was 8,520 thousand, Company's – 8,515 thousand LTL. The Group income from the main activity reached 169,528 thousand LTL, Company's – 168,003 thousand LTL. The largest part of income was received from the sold heat energy: Group's – 96 %, Company's – 96 %.

Already today it can be stated that the new management solutions implemented in the Group (management structure was changed), larger investments into the new technologies (the automatization of isolated network boiler houses, the system of automated accounting of consumers, distant data transfer and processing system, modern client servicing system – 'One call' principle), renewal and development of heat supply pipeline helps the Company to quickly adapt to the changes in the market and to become advanced company of heat energy supply and exploitation of engineering systems of the buildings in Kaunas region.

In 2007 the Company used for investments 32,314 thousand LTL, from which 2,725 thousand LTL were consumed for the connection of new consumers to the centralized district heating networks with the total capacity of 11.58 MW. During 2007 2.09 km new heat supply networks were installed and 3.495 km reconstructed and repaired by utilizing money from the investment funds.

The mission of the Company – profitable and competitive Kaunas region energy production, supply and distribution company with which it's consumer will have no problems. The vision of the Company – modern, effective and friendly to the environment technology and management, positive Company's public image.

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

External risk factors influencing the main activity of the Group are inflation, economical crisis, unfavourable governmental laws and orders, local self-government decisions, price policy.

Economic factors. Company covers the main heat supplier position in the Kaunas region. In order to maintain it, it is important to adapt to the changing energy supply conditions, to further implement modern and efficient technologies, to provide quality service to the consumers.

The sales of the Company depend on the heat energy consumption which directly depends on the outside temperature during heating season, on development speed of heat sales market and on investments of consumers into heat energy efficiency improvement. During the connection of new consumers attention is paid to the heat supply development possibilities. The heat insulation of buildings and reconstruction of heating systems will reduce heat demand of buildings and consumers because of rational heat use through control the temperature of rooms can reduce heat consumption. On the other hand improved comfort conditions can influence increased consumption of heat.

Currently economical situation influences the increase in purchasing power of population. Commercial and service sector grows. The worsening of economical situation would influence the results of heat supply and buildings supervision services.

For the energy generation the main used fuel is natural gas. Increasing prices of the fuel influence the heat and electric energy production cost price and to the purchase price of heat energy purchased from the closed-end company Kauno Termofikacinė Elektrinė (Kaunas Power Plant).

The competition of gas and electricity supply companies with the Group and the Company is displayed by the disconnections of the consumers from the district heating system (during 2007 – 1.46 MW) and by the choosing of alternative heat source (gas, electricity or other fuel). The choice of the fuel kind is regulated by the Kaunas city council decision 'Order of the heat consumers equipment reconnections from the heat supply system and lodgings or building heating way change'.

Essentially the management of the Group and the Company was restructured in 2004.

The activity of the Group and the Company is cyclic. During heating season (October – April) the biggest income is being received; during non heating season the production facilities of the Group and the Company are used partially and during this period income is the lowest, but during it the Group and the Company have to prepare for the heating season (reconstruction and maintenance works are being implemented in the heat supply networks and boiler-houses, engineering systems of the buildings).

Political factors. Kaunas city municipality has the control package of the Company's shares and in accordance with the Lithuanian Republic laws can set certain obligatory works, heat energy supply conditions and orders to the main activity of the the Group and the Company. According to the heat energy price calculation project prepared by the Group and the Company the base price of the Group's and the Company's supplied heat energy is determined by the State Prices and Energy Control Commission and the Council of Municipality in compliance with the base price determined by the Commission sets the price for heat supplied through the district heating. The base price is recalculated annually according to activity efficiency increase index set for particular supplier and to the correction coefficients set by the Commission: inflation correction coefficient, fuel prices changes correction coefficient, coefficient of change in sold heat, other factors correction coefficient. If the recalculated heat price does not differ from the valid heat prices by more than 1 % then it is possible not to change the valid price. The main shareholder is responsible for the election of the members of the Supervisory Board which control the management of the Company.

Social factors. The activity of the Group is significant to many residents and companies of the Kaunas region. Mostly the Group gets claims for the value of bills, services of low quality, insufficient attention to the customers.

Technical-technological factors. The most important inside risk is caused by the heat supply systems and their current condition. Insufficient automatisation level in the heat production infrastructure causes large need of hand work. Heat supply systems maintained by the Company are reconstructed using the most advanced technologies (poliurethane-foam isolated pipes, for which there is no need for ferro-concrete channels, simpler drainage system) and equipments aiming to increase the efficiency of those systems.

The Country's valid standards and acts which are coordinated with the European Union standards and acts in the field of regulation of qualitative and technical data of heat supply systems oblige the Company to make large investments into modernization of Company's asset. The economical status of the Group and the Company still condition insufficient investments into reconstruction of heat supply networks, renovation and rehabilitation of the equipment and development of the Group and the Company.

Ecological factors. The Group and the Company follow the requirements of the Helsinki Commission (HELCOM) and the Helsinki Convention for environmental limitations for the emissions of combustion products. The main pollution sources are the pollution of the atmosphere – organic fuel burning, water pollution. The Group and the Company pays taxes for the atmosphere and water pollution every quarter. According to the Lithuanian Republic laws fines are paid if the allowable norms of permitted pollutions and yearly limits have been exceeded. The main aims of the Group and the Company for the reduction of pollutants emission are the reduction of the heat transfer losses through the installation of pipes with the poliurethane-foam insulation, implementation of the new technological equipment and improvement of existing ones, the use of more environmental friendly fuel and constant monitoring of the pollution (in the balance of the fuel natural gas dominates – 70 %, heavy fuel oil – 17 %, peat – 7 %, biogas – 4 %, wood residues – 2 %).

The repayment of the bank loans: Detailed information is presented in JSC Kauno Energija consolidated and the Company's financial accountability of the year 2007 explanation letter's Note 11. The Company repays loans in the determined time.

Trials: There are no trials influencing the activity of the Company.

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

In 2007 the Company didn't implemented activity program because the changes of the planned activity results for 2007 were influenced by the decrease of sales amount caused by the decreased heat demand, which was conditioned by the higher heating season average outdoor temperature and by the increased (14.67 ct/kWh) JSC Kauno Energija district heating price, which was put into practice not from 1 August 2007 but from 1 December 2007.

The comparison of financial indexes of 2007 with 2006 is presented in Table 1.

Table 1

No.	Index name	Company's 2006	Group's 2006	Company's 2007	Group's 2007
1	Net profitability, % (net profit /sales and services)*100	5.11	3.21	-5.07	-5.03
2	Return on tangible asset, % (net profit/average value of tangible asset)*100	4.63	2.95	-4.00	-4.08
3	Debt coefficient (liability /asset)	0.39	0.39	0.45	0.45
4	Debt – ownership coefficient (liability/ownership of the owners)	0.63	0.64	0.81	0.83
5	General liquidity coefficient (short term asset /short term liability)	0.99*	0.99	0.85	0.86
6	The turnover of the asset (sales and services /asset)	0.87	0.89	0.77	0.79
7	Net profit per share (net profit/average weighted number of the shares in turnover)	0.47	0.30	-0.43	-0.43
8	Sales and services, thousand LTL	183,224	183,734	168.003	169.528
8.1.	Heat energy	166,172	166,172	162.017	162.017
8.2.	Electric energy	2,005	2,005	2.694	2.694
8.3.	The supervision of building heating and hot water supply systems, heating points equipment	6,893	7,403	3.277	4.802
9.	Net profit, thousand LTL	9,360	5,907	-8515	-8520
10.	Asset, thousand LTL	211,350	207,154**	219.198	215.227**
11.	The ownership of the owners, thousand LTL	129,633	126,180	121.118	117.660
12.	The ownership of the owners per share, LTL	6.57	6.40	6.14	5.97
13.	Share capital, thousand LTL	118,310	118,310	118,310	118,310
14.	Relation of share capital and asset	0.56	0.57	0.54	0.55

* Decrease was stipulated by the increased financial liability for the current year.
** The asset of the Group is less than the Company's because of the elimination of 4.5 mln. LTL asset value recalculation for the asset contribution to the daughter company.

The comparison of non financial data of 2007 with 2006 is presented in Table 2.

Table 2

No.	Index name	Index characterization	Company's 2006	Group's 2006	Company's 2007	Group's 2007
1.	Produced energy	thousand MWh	1,821.1	1,821.1	1,710.1	1,710.1
1.1.	Heat energy supplied to the network	thousand MWh	1,804	1,804	1,692.3	1,692.3
1.2.	Electricity energy	thousand MWh	17.1	17.1	17.8	17.8
2.	Sold energy	thousand MWh	1,438.3	1,438.3	1,340.3	1,340.3
2.1.	Heat energy	thousand MWh	1,423	1423	1,324.4	1,324.4
2.2.	Electricity energy	thousand MWh	15.3	15.3	15.9	15.9
3.	Reconstructed heat supply route	m	4,976.15	4,976.15	3,495	3,495
4.	New laid heat supply route	m	3,381	3,381	2,090	2,090

The influence of the environment on the activity. The result of the activity of the Company can be influenced by the decrease of amount of sales caused by decreased heat demand which is stipulated by the higher heating season average outdoor temperature.

After the increase of fuel prices the costs of the Group and the Company fuel technology (used for the heat generation in production sources belonging to the Group and the Company by the right of ownership) for the sold 1 kWh of heat energy in 2007 compared with 2006 increased 0.26 ct (22.8 %) and amounts to 1.40 ct.

The management pays large attention to the increase of efficiency of work and improvement of the consumer service. The level of qualification of the management and specialists correspond their current duties and the length of service of other employees and the knowledge of subject practice permits their work in the current positions. The change of the employees is not a significant problem in the Group and the Company but some need of the qualified specialists can be identified.

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

All main financial data are presented in the annual financial accountability and its explanation letter.

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

The audit of the year 2007 has been prepared on 29 February 2008. It has been prepared by auditor Jonas Akelis (Auditor's Certificate No.000003). The audit of 2007 has been prepared by independent audit company which has been chosen during competition. In the general shareholders meeting on 28-04-2006 closed-end company Ernst & Young Baltic (audit company certificate No. 0001335, Subačiaus 7, LT – 01008 Vilnius) has been chosen for the preparation of the audit of financial activity audit of JSC Kauno Energija (further - Audit) for period of 2006 - 2008.

Audited financial statements of the year 2007 and conclusion about it prepared by independent auditor are presented together with this annual report of the Company.

There were no other important events from the end of the previous financial year till the annual report confirmation.

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

In the future the Group in it's activity plans to increase the efficiency of activity, improve consumer service. Also it plans to offer services of buildings energy audit and administration.

Investments create strong potential for the business development and profitability. The aim of the Group investment programme for 2008 is a further development of the Company's heat production, transmission and supply through increase in heat supply reliability, the development of services of engineering systems supervision and quality of services.

In 2008 it is planed to allot 36,710 thousand LTL (the Company plans to invest 14,010 thousand LTL its own funds and other funds (22,700 thousand LTL) it plans to borrow from commercial banks or to receive it from EU structural funds). The largest investments are allotted to the reconstruction and repair of the heat supply networks, installation of new networks, closing of the group heating substations. Further it is planed to implement distant data gathering equipment, to change the heat metering equipment, to carry out installation of the new water heating boiler in the Company's subsidiary Jurbarko Šilumos Tinklai and installation of steam boiler house in Petrašiūnai Power Plant.

Implementation of these measures will allow to reduce heat production and supply losses and to perform optimization of heat supply to the consumers.

Planned activity indexes for 2008 are represented in Table 3.

Table 3

Index name	Company's thousand LTL	Daughter company's thousand LTL	Group's thousand LTL
Total profit (loss)	3,302	80	3,461
Sales income	241,173	4,387	242,447
Costs	237,871	4,307	238,986
Other activity result	44	20	-15
Incomes	1,045	29	989
Costs	1,001	9	1,004
Financial investment activity result	-1,832	-14.8	-1,847
Incomes	1,248	0.2	1,248
Costs	3,080	15	3,095
Total profit (loss)	**1,514**	**85.2**	**1,599**

11. Information on the companies group research and development activity

In the year 2007 Company has signed the agreement with Kaunas University of Technology for the preparation of the feasibility study "Communal waste burning in Kaunas". Data used in this study used have been in accordance with work "Waste burning feasibility project documentation preparation" performed by the Ministry of Environment and Environment Projects Management Agency. It is strategically important for the Company to find similar new heat source and also there emerges the opportunity in Kaunas to use alternative fuel (communal waste) and to implement the conversion of used fuel. Also by the order of the Company Lithuanian energy institute will prepare strategy for JSC Kauno Energija of Kaunas city heat supply system development for the period 2008 - 2020.

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 didn't acquired it's own shares. Daughter company also did not acquired the Company shares. The Company and it's daughter company during the review period didn't 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 the information on this issue is presented in Item 2.7, 22 of financial accountability explanatory letter.

14. Information on Issuer subsidiary and secondary enterprises

By the decision of the Company's management board the subsidiary of the Company Jurbarko Šilumos Tinklai was established and it was registered on 9 September 1997, address V. Kudirkos Str. 11, 4430 Jurbarkas. In the subsidiary of the Company heat energy is produced and sold for the Jurbarkas city consumers.

On 17 October 2007 JSC Lietuvos Dujos implemented agreement signed in 2006 by the JSC Lietuvos Dujos, Jurbarkas district municipality and the Company for the Jurbarkas city gasification and the Company's subsidiary Jurbarko Šilumos Tinklai boiler-house adaptation for the burning of natural gas was finished, heat production and supply reliability was increased and heat production costs were reduced. Company avoided the need to burn heavy fuel oil with high content of sulphur at the same time avoiding excessing of permitted pollution of the atmosphere.

41 employees work in the Company's daughter company Jurbarko Šilumos Tinklai.

On 1 July 2006 daughter company of JSC Kauno Energija Closed-end company Pastatų Priežiūros Paslaugos has been established. Address of Daughter Company is Savanorių 347, 49423 Kaunas-43, code of the company 300580563. Authorized capital of Closed-end company Pastatų Priežiūros Paslaugos is 6,518,000 LTL divided into 65,180 ordinary registered shares of 100 LTL nominal value. JSC Kauno Energija owns 65,180 units of Pastatų Priežiūros Paslaugos ordinary registered shares. The Company owns 100 % of this company's shares by the right of ownership and it is the only shareholder of daughter company.

The activity of closed-end company Pastatų Priežiūros Paslaugos is maintenance of heat and domestic hot water supply systems and equipment of heating substations, maintenance and service of constructional elements, cold water supply, drainage, electricity supply systems in the buildings.

90 employees work in the daughter company of the Company.

15. The authorized capital structure of the Issuer

In the Enterprises register of Lithuanian Republic the registered authorized capital of JSC Kauno Energija is 118,310,292 LTL.

The authorized capital structure of the Issuer according to the shares type is presented in Table 4.

Table 4

Shares type	Number of shares, units	Nominal value, LTL	Total nominal value, LTL	Municipalities portion in the authorized capital, %	Private shareholders portion in the authorized capital, %
Ordinary registered shares	19,718,382	6	118,310,292	96.38	3.62
Total	19,718,382	-	118,310,292	96.38	3.62

16. Data on issues of the shares of the Issuer

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

16.1. Basic characteristics of shares issued into public circulation of securities

No. of registration of stock	A01031430
Number of shares	18,968,382 ORS
Nominal value	6 LTL
Total nominal value of shares	113,810,292 LTL

16.2. Information about the shares placed for non-public circulation of securities

Lithuanian Securities Commission on 20 July 2000 (Protocol No. 18, Item No.8) in the Act No.AB-4757 registered securities of JSC Kauno Energija placed for non-public circulation.

No. of registration of stock	A01031430
Number of shares	750,000 ORS
Nominal value	6 LTL
Total nominal value of shares	4,500,000 LTL

17. Information about Issuer shareholders

Total number of JSC Kauno Energija shareholders on 31 December 2007 is 353 shareholders.

The shareholders of Issuer to who on 31 December 2007 belonged more than 2 % of JSC Kauno Energija authorized capital (19,718,382 ORS) are presented in Table 5.

Table 5

The name of shareholder, surname (name of the company, type, address, code)	The number of ordinary registered shares belonging to the shareholder, units	The portion of authorized capital, %	The portion of votes given by the ownership right belonging shares, %	The portion of votes belonging to the shareholder together with operating persons, %
Kaunas city municipality administration Laisvės 96, 44251 Kaunas Company's register code 188764867	16,954,892	85.99	85.99	-
Kaunas district municipality administration Savanorių 371, 49500 Kaunas Company's register code 188756386	1,606,168	8.14	8.14	-
Other shareholders	713,512	3.62	3.62	-
Jurbarkas district municipality administration Dariaus ir Girėno Str. 96, 74187 Jurbarkas Company's register code 188713933	443,810	2.25	2.25	-
Total	19,718,382	100	100	

17.1. Shareholders who on 31 December 2007 owned more than 5 % of shares of JSC Kauno Energija (18,968,382 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 administration Laisvės 96, 3000 Kaunas Company's register code 188764867	Ordinary registered shares	16,204,892	97,229,352	85.43	82.19
Kaunas district municipality administration Savanorių 371, 3042 Kaunas Company's register code 188603668	Ordinary registered shares	1,606,168	9,637,008	8.47	8.15

17.2. Shareholders who on 31 December 2007 owned more than 5 % of shares of JSC Kauno Energija (750,000 ORS) released into non-public circulation of securities (registration No. A01031430) are presented in Table 7.

Table 7

The name	Type of shares	Number of shares, units	Total value of shares, LTL	Amount of shares (%) from total number of released into non-public circulation	Share of authorized capital (%)
Kaunas city municipality administration Laisvės 96, 3000 Kaunas Company's register code 188764867	Ordinary registered shares	750<000	4,500,000	100	3.8

No shareholder of the Issuer has any special control rights. All shareholders have equal rights set by the Law on stock corporations of the Republic of Lithuania, Item 4. Number of shares which grant votes during general meeting of shareholders of JSC Kauno Energija is 19,718,382.

The Company has no information on restrictions of voting rights or any disagreements between shareholders which could restrict transfer of securities and (or) voting rights.

18. Employees

According to the data of 31 December 2007 705 employees are employees in the Group in total. The change of the employee's number during 2007 is presented in Table 8.

Table 8

Listed number of employees	Company's 31-12-2006	Group's 31-12-2006	Company's31-12-2007	Group's 31-12-2007
Total	630	735	615	705
Managers	4	10	4	9
Specialists	284	308	294	319
Workers	342	417	317	377

The education of employees at the end of the period

Table 9

No.	Educational level	Company's 31-12-2006	Group's 31-12-2006	Company's31-12-2007	Group's 31-12-2007
1.	Not finished secondary	27	41	24	30
2.	Secondary	273	321	253	290
3.	College	117	132	114	135
4.	Higher	213	241	224	250
	Total	630	735	615	705

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

Table 10

No.	Employees	Company	Group
1.1.	Average conditional number of managers	4	9
1.2.	Average monthly salary of managers	8,125.4	7,203
2.1.	Average conditional number of specialists	277	302
2.2.	Average monthly salary of specialists	2,473.3	2,458.5
3.1.	Average conditional number of workers	315	375
3.2.	Average monthly salary of workers	1,691.7	1,676.3

Special rights and duties of employees of the Issuer or their part as laid in collective agreements

According to collective agreement currently in effect in the Company:

1. For continuous record of service in the Company employees are granted with additional paid vacations:
   - for worked 5 years - 1 calendar day;
   - from 6 till 10 years - 2 calendar days;
   - for more than 10 years - 3 calendar days;
   - fore each further 5 years - 1 calendar day;
   - Record of service is treated as continuous (additional vacation days are granted) in case of employees who have been working in the companies of Lithuanian energy system and transferred into JSC Kauno Energija on the basis of employers' agreement, i.e. when transfer happened with Work Law Code or Work Contract Law in effect.
2. Employees have a right to receive additional paid vacation days:
   - in case of marriage - 3 calendar days;
   - in case of the death of close person (one of the parents or one of the parents of husband or wife, husband or wife, brother, sister, daughter, son or legal foster-child) - 3 calendar days;
   - in case of childbirth by the wife - 1 calendar day;
   - in case of marriage of employee's daughter, sun or legal foster-child - 3 calendar days.
3. Employer is obliged:
   - to assure conditions for preventive checking of health of employees and in case of the need arisen – rehabilitation treatment, to provide free services in health centre of the Company;
   - in case of employee to pay grant of two last month average salaries size, free transport or to cover expenses for the transport. The grant is to be paid for the person who was responsible for the burial;
   - in case of the death of close person of employee (father, mother or husband or wife), to pay grant of one last month average Company or branch salary size, free transport or to cover expenses for the transport;
   - in case of one or more children to pay grant for employee of 50% last month average Company or branch salary size for each child born;

- in case of marriage of employee to pay grant for employee of 50% last month average Company or branch salary size;
- for employees who are raising three or more children younger than 16 years, widower (widow) or lonely parents who are raising one or more children till 19 years old (if they are attending secondary school) or 21 year old (if they are full-time students of high school) or are caring for other members of the family with heavy or medium level of disability or lower than 55 % level of working capacity or family members of old-age pension age who have, according to the laws, appointed large or average special demand level, to pay once a year grant for employee of 50% last month average Company or branch salary size according to the date of appeal presentation;
- for employees who reached 50, 60 (in case of women even 55) years and taking into account their continuous record of service in the Company, to pay gift of last month average Company or branch salary size: for those with record of service from 1 to 10 years – 25%, from 10 to 15 years – 37.5%, from 15 to 20 years 50%, and for more than 20 years – 75 %;
- in all other cases when material support is required (due to experienced casualties from natural disasters or from other reasons independent on the employee) to pay grant up to 2,000 LTL in size on the agreement of the sides who signed Collective agreement;
- in case of heavy sickness of employee or in case of heavy disaster, to pay grant of five last month average Company or branch salaries size on the agreement of the sides who signed Collective agreement.

19. Order of changes of Regulations of the Issuer

The Regulations of JSC Kauno Energija foresee that general meeting of shareholders of JSC Kauno Energija have special right to change Regulations of the Company with exceptions set in Law on stock corporations of the Republic of Lithuania. When making decision on changes of the Regulations 2/3 of votes of shareholders participating in general meeting of shareholders are required.

20. Issuer bodies

According to the Regulations of JSC Kauno Energija, the management bodies of the Company are General Meeting of Shareholders, collegiate supervisory body – Supervisory Board, collegiate management body –Management Board and individual management body – General Manager.

The decisions of the shareholders meeting made on the shareholders meeting's competence issues foreseen in the Regulations of the Company are obligatory to the shareholders, Supervisory Board, Management Board and General Manager and for other employees of the Company.

In the General Meeting of Shareholders or repeated General Meeting of Shareholders persons who at the end of the accountability day were Company's shareholders, personally, except exception foreseen in the laws or their authorized persons with whom the agreement of voting right transfer are made have the right to participate and to vote. The registration day of the Company's meeting is the fifth workday before the General Meeting of Shareholders or fifth workday till repeated General Meeting of Shareholders. Person participating in the shareholders meeting and having the right to vote has to provide document testifying the identity of person. Person who is not shareholder together with document testifying the identity of person has to provide the document confirming the right to vote in the shareholders meeting.

The collegiate supervisory body – the Supervisory Board is elected by the General Meeting of Shareholders in compliance with the order foreseen in the Law on stock corporations. The Supervisory Board consists of 7 (seven) Supervisory Board members. Supervisory Board members are elected for the 4 (four) year period. Supervisory Board elects the Chairman of the Supervisory Board from it's members. The General Meeting of Shareholders can recall all Supervisory Board or it's members before their term of office expires. If the individual members of the Supervisory Board are elected they are elected only for the current Supervisory Board term of office.

Supervisory Board elects and recalls from their duties the members of the Management Board, supervises the activity of the Management Board and General Manager, presents opinions and suggestions for the General Meeting of Shareholders on the Company's activity strategy, annual financial accountability, profit allocation project and Company's annual report, also on the activity of the Management Board and General Manager, provides suggestions for the Management Board and the General Manager to recall their decisions which contradict with the laws and other legal acts, Company's Regulations or decisions of the General Meeting of Shareholders, decides on other issues which are ascribed by the General Meeting of Shareholders to the competence of Supervisory Board, Company's and it's Management Bodies activity supervision issues. Supervisory Board has no right to charge or transfer it's functions foreseen in the Law on stock corporations to other bodies of the Company.

Management Board is collegiate company's management body, which consists of 7 Management Board members. The Management Board for the 4 (four) years period is elected by the Supervisory Board. Supervisory Board can recall all Management Board or individual it's members before their term of office expires. If the individual members are elected, they are elected only for the current Management Board term of office. The Management Board elects the Chairman of the Board from it's members.

The Management Board elects and recalls the General Manager of the Company, determines his salary, other work conditions, confirms duty regulations, motivates or assigns penalties.

General Manager is the manager of the Company. The Manager of the Company is individual management body of the Company who organizes the activity of the Company. The authorization of the Company's administration members and their responsibility is determined by the order of the General Manager.

21. Members of the collegiate bodies, the manager of the company, chief accountant

(duties, names and surnames, data about participation in the issuer authorized capital, term of office beginning and end of every person, information about calculated money sums of issuer per period under review, other transferred asset and provided guarantees for these persons, total and average amounts for one member of collegiate body, manager of the company, chief accountant)

21.1. Data about the members of the Company's supervisory board

21.1.1. The members of the Company's supervisory board till 30-07-2007:

Adolfas Antanas Balutis. Member of Kaunas city Municipality Council. Chairman of the Company's Supervisory Board. Chairman of Kaunas city Table Tennis Federation. Has no shares of the Company. Has shares of the companies: JSC Žemprojektas, JSC Snaigė, JSC Invalda which makes less than 5 % of the authorized capital.
The beginning of term of office 30-04-2004 end 30-07-2007.

Kęstutis Mikėnas. Member of Kaunas city Municipality Council. Deputy Manager of JSC Salvyda. Deputy Chairman of the Company's Supervisory Board. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 30-04-2004 end 30-07-2007.

Giedrius Donatas Ašmys. Has no shares of the Company. Has 245 units of shares of JSC Kauno Kranai and 3 units of shares of closed-end company Vilties Vaistinė, which makes less than 5 % of the authorized capital.
The beginning of term of office 30-04-2004 end 30-07-2007.

Tautvydas Barštys. Member of Kaunas city Municipality Council. Member of the Company's Supervisory Board. General Manager and Chairman of JSC Kauno Grūdai. Chairman of JSC Kaišiadorių Paukštynas and JSC Vilniaus Paukštynas. President of Lithuanian Woman Basketball League Basketball Club "Viktorija", JSC Kauno Grūdai Charity and Support Fund and Lithuanian Association of Grain Processors. Has no shares of the Company. Has 790,683 units of shares of JSC Kauno Grūdai, which makes 38.8 % of authorized capital and has 48,855 units of shares of JSC Vilniaus Paukštynas, closed-end companies Jūsų Stilius, Tubus, Laukinių Vakarų Salūnas, which make less than 5 % of authorized capital.
The beginning of term of office 30-04-2004 end 30-07-2007.

Gediminas Budnikas. Member of Kaunas city Municipality Council. Member of the Company's Supervisory Board. Head of Levy Department at closed-end company Automobilių Stovėjimo Aikštelė. Chairman of the Council at Kaunas regional energy agency. Member of the Management Board at closed-end company A. Sabonio Žalgirio Krepšinio Centras. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 30-04-2004 end 30-07-2007.

Aloyzas Zairys. Member of Jurbarkas district Municipality Council. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 30-04-2004 end 30-07-2007.

Anicetas Ignotas. Member of the Company's Supervisory Board.
The beginning of term of office 30-04-2004 end 30-07-2007.
New member of the Supervisory board has not been elected.

During period under review there were no count in of money sums, transfers of other assets and no guarantees given for the members of the Supervisory Board.

21.1.2. The members of the Company's supervisory board who's term of office begins on 30-07-2007 ends on 30-04-2011.

Jonas Koryzna. Member of Kaunas city Municipality Council. Member of City Committees of Economy and Energy. Member of the Company's Supervisory Board. Vice-resident of Kaunas Hall of Commerce, Industry and Craft, member of Kaunas Rotary club. Has no shares of the Company. Has shares of FMI Kapitalo Srautai and FMI Baltijos Vertybiniai Popieriai.

Bronislovas Kučinskas. Member of Kaunas city Municipality Council, Member of City Committees of Economy, Energy and Control. Deputy Chairman of the Company's Supervisory Board. Director of Vilnius University's public institution Regioninių Projektų Valdymo Centras,. Has no shares of the Company. Does not participate in the capital of other companies.

Jadzė Bartašienė. Teacher-expert of physics in J. Urbšys secondary school, independent expert of Ministry of Education and Science. Has no shares of the Company. Does not participate in the capital of other companies.

Pranas Paškevičius. Member of Kaunas city Municipality Council. Member of Committee of Culture, Development of Communities and Self-governance. Member of Committee of Control. Deputy Director of closed-end company Neogena. Has no shares of the Company. Responsible secretary of Lithuanian Movement "Černobilis". Has no shares of the Company. Has shares of closed-end companies Siroma, Neogena, Nida.

Rimas Antanas Ručys. Member of Kaunas city Municipality Council, Kolegijos narys. Deputy Chairman of Comitee of City Economy and Energy. Director of closed-end company Ručenta. Has no shares of the Company. Has shares of closed-end company Ručenta.

Stasys Žirgulis. Member of Kaunas city Municipality Council. Chairman of Commission for Names' Conception and Memory Memorialization. Member of Anti-corruption Commission. Member of Committee of Culture, Development of Communities and Self-governance. Teacher in Vilnius Art Academy's Kaunas Faculty. Member of Lithuanian Union of Paminters, member of Lithuanian Association of Art. Has no shares of the Company. Does not participate in the capital of other companies.

Gediminas Žukauskas. Member of Kaunas city Municipality Council, Chairman of Committee of City Economy and Energy. General Energy Manager in closed-end company Kauno Vandenys. Chairman of Panemunė Community Center. Has no shares of the Company. Does not participate in the capital of other companies.

During period under review there were no count in of money sums, transfers of other assets and no guarantees given for the members of the Supervisory Board.

21.2. Data about the members of the management board

21.2.1. Data about the members of the management board:

Algirdas Vaitiekūnas. The Chairman of the Management Board. Head of Energy Sector of City Economy Department of Kaunas City Administration. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 30-04-2004 end 27-11-2007

Rymantas Juozaitis. General manager of JSC Lietuvos Energija. The Deputy Chairman of the Management Board. Member of Management board of JSC Lietuvos Energija. Has 45,674 units of the Company (as on 18-04-2007). Has 216,964 units of shares of JSC Lietuvos Energija, which make less than 5 % of authorized capital.
The beginning of term of office 30-04-2004 end 27-11-2007.

Gintaras Čižikas. Chairman of Management Board of public institution Dariaus ir S. Girėno Sporto Centras, deputy chairman of Lithuanian Work Federation and chairman of this federation's Kaunas Sector. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 30-04-2004 end 12-11-2007.

Stanislovas Karčiauskas. Deputy Manager of JSC Kauno Energija. Director of Marketing Department. Chairman of Management Board of closed-end company Pastatų Priežiūros Paslaugos. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 30-04-2004 end 27-11-2007.

Henrikas Matulionis. Member of Management Board of the Company. Director of closed-end company Empirija. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 30-04-2004 end 27-11-2007.

Andrius Stankevičius. Deputy Director on behalf of legal questions of closed-end company Pastatų Priežiūros Paslaugos. Member of Management Board of the Company. Chairman of Management Board of closed-end company Automobilių Stovėjimo Aikštelės. Member of Management Board of closed-end company Pastatų Priežiūros Paslaugos. Member of board of Kaunas Centre Community. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 30-04-2004 end 27-11-2007.

Aleksandras Sigitas Matelionis. General Manager of JSC Kauno Energija. Member of Management Board of the Company. Deputy Chairman of Management Board of closed-end company Pastatų Priežiūros Paslaugos. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 30-04-2004 end 27-11-2007.

During period under review there were no count in of money sums, transfers of other assets and no guarantees given for the members of the Management Board.

21.2.2. Data about the members of the management board:

Ramūnas Gatautis. Laboratory of Complex energy researches of Lithuanian Energy Institute, doctor of sciences. Untill 08-05-2008 researcher-trainee in Department of Heating and ventilation of Vilnius Gedimino Technical University. Chairman of the Management Board of JSC Kauno Energija. Member of International association economists of energy, member of the Board of Lithuanian Energy Institute, member of the Board of young scientists of Lithuanian Energy Institute. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 27-11-2007 end 30-04-2011.

Algirdas Vaitiekūnas. Head of Energy Sector of City Economy Department of Kaunas City Administration. Deputy Chairman of the Management Board of JSC Kauno Energija. Has no shares of the Company. Does not participate in the capital of other companies
The beginning of term of office 30-04-2004 end 30-04-2011.

Kęstutis Jonaitis. Lawyer, Office of Lawyer N. Katilius, K. Donelaičio 62, office 306, Kaunas. Has 1,100 units of shares of closed-end company Technobilis, company code 300666247, which make 54,03 % of authorized capital. Has no shares of the Company.
The beginning of term of office 27-11-2007 end 30-04-2011.

Mantas Raila. Director of closed-end company RP Reklama. Chairman of Lithuanian Sail Association. Shareholder of closed-end company RP reklama, has 50 units of shares, which make 50% of authorized capital. Has no shares of the Company.
The beginning of term of office 27-11-2007 end 30-04-2011.

Vykintas Šuksteris. Director of closed-end company AF-terma. International association economists of energy, Lithuanian Thermotechnical Engineers Society, Lithuanian Association of Energy Consultants, president. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 27-11-2007 end 30-04-2011.

Eugenijus Ušpuras. Director of Lithuanian Energy Institute, professor of Department of Thermal and Nuclear Energy, member-correspondent of Lithuanian Science Academy. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 27-11-2007 end 30-04-2011.

Juozas Marcalis. Assistant of member of Seimas of the Republic of Lithuania H. Žukauskas, engineer-supervisor of closed-end company Kauno Vandenys. Has no shares of the Company. Does not participate in the capital of other companies.
The beginning of term of office 27-11-2007 end 30-04-2011.

During period under review there were no count in of money sums, transfers of other assets and no guarantees given for the members of the Management Board.

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

Aleksandras Sigitas Matelionis. General Manager of the JSC Kauno Energija since 27-07-2004. Education – higher university, Kaunas University of Technology (1984), heat, gas supply and cooling, profession – civil engineer. Working places during 10 years and positions held – Kaunas district heating network Heat network exploitation department – Deputy Head (02-05-1994), special destination joint stock company Kauno Energija subsidiary Kaunas district network Deputy of Director for heat supply (05-08-1997), JSC Kauno Energija subsidiary Kaunas district network Deputy Director for heat supply (01-02-2000). Has no shares of the Company. Does not participate in the capital of other Companies.

Violeta Staškūnienė. Chief financier of JSC Kauno Energija since 27-07-2000, chief accountant since 16-01-2003. Education – higher university, Vilniaus University (1984), work economy, profession – economist. Working places during 10 years and positions held: Kaunas district heating network Heat realization bookkeeping deputy of chief accountant (01-09-1995), Heat realization department – Deputy Head (01-03-1996), non production activity department chief specialist (02-01-1997), special destination JSC Kauno Energija Heat realization department assistant of the head for the documentation (20-10-1997), Chief Accountant of the subsidiary Kauno Energijos Paslaugos (22-06-1998), special destination JSC Kauno Energija Deputy Chief Accountant (10-01-2000). Closed end company Itvizija chief accountant (1998 till 2004-04), closed-end company Energijos Realizacijos Centras chief accountant (01-2003 till 06-2004).
Has 2,641 units of the Company shares, which make less than 5 % of the authorized capital. Does not participate in the capital of other Companies.

During 2007 total count in sum for the General Manager and Chief Accountant was -197.2 thousand LTL, average amount for one person 98.6 thousand LTL and no other assets have been transferred, no 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 resignment or firing without grounding ori f their work would end due to the chantes in Issuers control

None.

24. Information about larger related agreements of the sides

There have been no major separate agreements. Detali informatikon is presented in Item 20 of explanatory letter of financial accountability.

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

Information on the observance of the Governance code of the companies is presented in Annex 1 of the annual report.

26. Data about publicly declared information

During the last 12 months the Issuer declared information presented bellow through OMX news publication system in all European Union as it is the Issuers duty according to the laws regulating market of securities. This information has also been put into internet site of the Issuer. All information can be received through Vilnius Stock Exchange internets site (http://www.baltic.omxgroup.com/?id=3304) and internet site of the Issuer (http://www.kel.lt/lt/?id=348).

Information declared during 2007:

- On 31-01-2007 the Company announced preliminary activity result of 2006:

JSC Kauno Energija preliminary not audited activity results of 2006 (31 December 2006) according to the International accounting standards – net profit 7,843 thousand LTL (2,272 thousand EUR), income from sales per 2006 – 183,224 thousand LTL (53,065 thousand EUR). The change of the planned activity results was influenced by the reduction of sales amount in December 2006 due to the lower monthly average weather temperature.

- On 19-03-2007 announced the information about the summoning of General Meeting of Shareholders:

By the initiative and decision of the Company's Management Board on 25 April 2007, 13 p.m. the Shareholders Meeting of JSC Kauno Energija (code of enterprise 235014830, address Raudondvario 84, Kaunas) is summoned, which will be held in company's hall (Raudondvario 86A, I floor). The registration of shareholders will be from 12.20 p.m. till 12.50 p.m. The account day of Shareholders Meeting is 18 April 2007. Meeting agenda:

1. Company's annual report of 2006.
2. Conclusions of auditor.
3. Confirmation of financial statement of 2006.
4. Confirmation of the allocation of profit for 2006.

- On 06-04-2007 announced decision projects prepared by JSC Kauno Energija Management Board to be presented during General Meeting of Shareholders on 25-04-2006 for voting. JSC Kauno Energija Management Board decided to offer for the General Meeting of Shareholders to make the decision not to pay dividends for the Company's shareholders for the period of 2006.
- On 25-04-2007 announced about the summoning of repeated General Meeting of Shareholders: General Meeting of Shareholders of JSC Kauno Energija held on 25 April 2007, 13 p.m. did not came into force since there was no quorum. Repeated JSC Kauno Energija General Meeting of Shareholders is summoned on 14 May 2007, 13 p.m. Announced repeated meeting will be held in company's hall, I floor (Raudondvario 86A, Kaunas) and will make the decisions on the basis of the agenda of unexecuted meeting.

On 14-05-2007 the decisions of the repeated General Meeting of Shareholders have been announced:

1. The consolidated annual report on the activity of the Company for 2006 has been heard.
2. The conclusions of auditor have been heard.
3. Audited consolidated and Company's financial statements of 2006 have been confirmed.
4. Profit of the Company for 2006 has been allocated: allotted to the compulsory reserve – 7,689 thousands LTL (2,227 thousands EUR).

The audited activity result of the JSC Kauno Energija for 2006 (net profit) differs from the announced preliminary not audited activity result for 2006 (31 December 2006) (net profit 7,843 thousands LTL (2272 thousands EUR)) due to the following reasons: recalculation of heavy fuel oil prices by the method of weighted average at the company's scale, amortization of subsidiaries, the change of stocks realization value and the recalculation of profit tax.

- On 15-05-2007 consolidated and Company's audited financial statements of 2006 have been publicly presented as confirmed by the shareholders on 14 May 2007.
- On 25-05-2007 not audited intermediate financial statement of I quarter of 2007 has been publicly presented.
- On 14-06-2007 annual prospect-report for 2006 of JSC Kauno Energija (enterprise code 235014830) has been publicly presented.
- On 26/06/2007 the summoning of JSC Kauno Energija extraordinary General Meeting of Shareholders has been announced:

By the initiative of the main shareholder of the Company (Administration of Kaunas city Municipality) and by the decision of the Company's Management Board on 30 July 2007, 13 p.m. General Meeting of Shareholders of JSC Kauno Energija (code of enterprise 235014830, address Raudondvario 84, Kaunas) is summoned and which will be held in Company's hall (Raudondvario 86A, I floor). The registration of shareholders will be from 12.20 p.m. till 12.50 p.m. The account day of the General Meeting of Shareholders is 23 July 2007. Meeting agenda:

1. Recalling of JSC Kauno Energija Supervisory Board;
2. Election of JSC Kauno Energija Supervisory Board.

- On 16-07-2007 the projects of decisions of General Meeting of Shareholders of the Company are announced:

The Company's shareholders will be offered to agree with these decisions:

1. To recall the Supervisory Board of joint stock company Kauno Energija;
2. To elect the members of Supervisory Board of joint stock company Kauno Energija for the four years period: Jadzė Bartašienė; Jonas Koryzna; Bronislovas Kučinskas; Pranas Paškevičius; Rimas Antanas Ručys; Stasys Žirgulis; Gediminas Žukauskas.

- On 30-07-2007 the report on decisions of General Meeting of Shareholders held on 30 July 2007 and not audited Company's activity result of I half year of 2007 were published. During extraordinary General Meeting of Shareholders of JSC Kauno Energija the following decisions have been made:

1. To recall Supervisory Board of JSC Kauno Energija;
2. To elect members of Supervisory Board of JSC Kauno Energija for the term of four years:
   - Jadzė Bartašienė;
   - Jonas Koryzna;
   - Bronislovas Kučinskas;
   - Pranas Paškevičius;
   - Rimas Antanas Ručys;
   - Stasys Žirgulis;
   - Gediminas Žukauskas.

- On 08-08-2007 intermediate consolidated six month of 2007 declaration on JSC Kauno Energija has been presented.

- On 18-09-2007 revised intermediate not audited financial accounting of first quarter of 2007 and confirmation of responsible persons have been presented.
- On 22-10-2007 revised financial accounting of first half-year of 2007 and intermediate report for 6 month period of 2007 with confirmation of responsible persons have been presented.
- On 30-10-2007 results of activities during 9 month period of 2007 and prognosis of activities of JSC Kauno Energija have been presented:

Non-audited activity result of the Company during 9 month period of 2007 (30 September 2007) according to the international accounting standards is loss – 11,677 thousand LTL (3,382 thousand EUR) and the loss of the Group is 11,714 thousand LTL (3,393 thousand EUR). Income from the sales of the Company during 9 months of 2007 reached 106979 thousand LTL (30,983 thousand EUR) and that of the Group 108,124 thousands LTL (31,315 thousands EUR). Planed loss of usual activity of JSC Kauno Energija in 2007 is 5,939 thousand LTL (1,720 thousand EUR). Changes of the planed activity results of 2007 have been caused by decision of Kaunas city Municipality Council to apply new increased (14.67 ctLTL/kWh) price of heat supplied by JSC Kauno Energija since 1 December 2007 instead of 1 August 2007.

- On 30-10-2007 information about resigning of the member of ruling body has been presented: Gintaras Čižikas, deputy chairman of Lithuanian Work Federation and chairman of this federation's Kaunas Sector on 29 October 2007 presented appeal for JSC Kauno Energija On the matter of resigning from Management Board. According to the presentation date the end of term of Gintaras Čižikas as a member of Management Board is 12 November 2007.
- On 27-11-2007 information about recalling and election of ruling body has been presented:

On 27 November 2007 Supervisory Board of JSC Kauno Energija decided on the following:

1. To recall Management Body of JSC Kauno Energija;
2. To elect members of Management Body of JSC Kauno Energija for four year term:
    - Ramūnas Gatautis;
    - Kęstutis Jonaitis;
    - Mantas Raila;
    - Vykintas Šuksteris;
    - Algirdas Vaitiekūnas;
    - Eugenijus Ušpuras.

- On 05-12-2007 report on agreement of the manager on securities of the Issuer has been presented.
- On 22-12-2007 information on election of member of ruling body has been presented: on 21 December 2007 JSC Kauno Energija Supervisory Board decided to elect Juozas Marcalis as a member of Management Body of JSC Kauno Energija.

JSC Kauno Energija General Manager — Aleksandras Sigitas Matelionis

JSC Kauno Energija report on the compliance with the Governance Code for the companies listed on the Vilnius Stock Exchange

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

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICAB-LE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	No	Every year Company prepares and revises the strategy of production. The provisions of the Company's strategy in which there are no confidential information and the process of decisions making publicly is placed on the website and presented in the annual report.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	All the bodies of the Company (Manager, the Management board and the Supervisory board) aim to implement this recommendation, mutual meetings of the Management board and the Supervisory board are organized.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	A collegial management body of the Company – the Management board is responsible for the strategic management of the Company and performs other key functions of the Company management. A collegial supervisory body – the Supervisory board is responsible for the effective supervision of the Company's management bodie's activity.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	There are the Supervisory board and the Management board in the Company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	

2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	According to the statutes of the Company the Supervisory board from 7 (seven) members is elected and the Supervisory board elects the Management board from 7 (seven) members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Supervisory board of the Company is elected for the 4 (four) years and according to the statutes of the Company and practice it is not forbidden to re-elect the members of the Supervisory Board for the new term.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of the Company's Supervisory board haven't been the Manager of the Company.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	These recommendations the Company carries out by using voting mechanism by which help for the small shareholders there is an opportunity to have their representative in the collegial body.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	In the work regulations of the Supervisory board it is foreseen that every member of the body has to inform the chairman of the Supervisory board about his data change.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	No	The Company announces only that information which is provided to it by the members of the collegial body and which is presented in the annual report (data about the company's participation in the authorized capital, data on the participation in the activity of the other companies, institutions and organizations (the name of the company, institution and organization and position), information on more than 5 % others companies capital and votes, in %).
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	No	The Company does not influence the composition of the collegial body because the candidatures to the members of the collegial body are offered by the main shareholder.

3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	Till now in the practice of the Company all the members of the Supervisory board with the Company and its activity were introduced jointly and there was no annual review of the Supervisory board members. In the future the Company will strive to realize this provision.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	No	The Company does not influence the composition of the collegial body because the candidatures to the members of the Company's collegial body are offered by the main shareholder. For this reason we didn't followed recommendation.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: • He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; • He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; • He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); • He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); • He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; • He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; • He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; • He/she has not been in the position of a member of the collegial body for over than 12 years;	No	The Company does not follow this recommendation because the majority of the Supervisory board members (six members) represent the controlling shareholder having 85, 99 % of votes.

• He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	No	The Company does not follow this recommendation because the majority of the Supervisory board members (six members) represent the controlling shareholder having 85, 99 % of votes.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	Till now there was no practice of independence consideration of the Supervisory board members and announcement. In the future the Company will strive to realize this provision.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	Till now there was no consideration of the Supervisory board members independence, because the majority of the Supervisory board members (six members) represent the controlling shareholder having 85, 99 % of votes.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	The members of the Supervisory board are not remunerated from the Company's funds.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Supervisory board elected in the Company presents to the general shareholders meeting opinions and proposals about the Company's annual financial accountability, profit allocation project, the Company's annual report, the activity of the Company's manager and the management board, also carries out other the Company's and it's management bodies activity supervision functions allotted to the Supervisory board competence.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	By the data of the Company all the members of the Supervisory board are acting in good faith in the interests of the Company following the Company's but not the interests of the third persons.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	

4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	No	Six members of the Company's Supervisory board are representatives of the main shareholder – members of the Kaunas City Council. By the opinion of the Company the collegial management body is provided by the sufficient resources, except financial, because the remuneration for the Supervisory board and the Management board is not paid and it is determined only by the shareholders meeting but till now was not allotted.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No	There was no committee's formation practice at the Company because there was no need of it at the Company.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	No	There was no formation of the committees from the members of the Supervisory board.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	No	The Company does not follow this recommendation because there was no committees' formation practice at the Company.

4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The Company does not follow this recommendation because there was no committees' formation practice at the Company.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	The Company does not follow this recommendation because there was no committees' formation practice at the Company.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	There is no formation of the committee which would be obligated to carry out functions which allotted to carry out for the Nomination committee.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular	No	There is no formation of the committee which would be obligated to carry out functions allotted to carry out for the Remuneration committee.

the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed *inter alia* data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.	No	There is no formation of the committee which would be obligated to carry out functions allotted to carry out for the Audit committee.

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	There is no assessment of the Supervisory board activity and/or information about that practice. In the future the Company will strive to realize this provision.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company's Supervisory board and the Management board realize this recommendation.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The Company follows the order foreseen in the work regulations of the Supervisory board and the Management board and the information about the convened meeting is presented in advance together with all the information related to the meeting agenda.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The ordinary registered shares which make the authorized capital of the Company for all shares owners give equal rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	In compliance with the law on the Joint stock companies and the Company's statutes in this recommendation foreseen transactions confirmation issues are ascribed to the competence of the Management board but in individual cases for the asset transmission transactions the Company applies to the shareholders meeting.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Information about the shareholders decisions projects and the decisions taken by the shareholders meeting Company publicly places on the Company's website and disseminates it through the Vilnius Stock Exchange used information dissemination system, as foreseen in the law on the Joint stock companies.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The shareholders of the Company can implement the right to participate in the general shareholders meeting in person and through the representative if the person has proper authorization or with him was made the voting right transmission agreement in compliance with the legal acts order, also the Company makes conditions for the shareholders to vote by completing the general voting ballot as foreseen by the law on the

		Joint stock companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	Not applicable	According to the order of the Company's shareholders meeting and the lists of shareholders till now there was no need to implement this recommendation in the Company.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Company does not announce the report on the Company's remuneration policy. The remuneration policy as provided in this recommendation is not confirmed in the Company because this is not demanded by the legal acts. The remuneration for the Supervisory board and the Management board of the Company is determined by the shareholders meeting and till now there were no payments. The remuneration for the Manager of the Company is determined by the Management board in compliance with the Lithuanian Republic Government decision "For the state enterprises and joint stock, closed-end companies controlled by the state administration managers, their deputies and chief accountants' remuneration". According to this there was no need to prepare separate remuneration policy. Nevertheless in compliance with the legal acts orders, the Company publicly announces the information

		on the termination payments and loans for the members of the Supervisory board, the Management board and administration (Manager, Chief accountant) in the annual report.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	For the reasons foreseen in the 8.1. Recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company.
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	For the reasons foreseen in the 8.1. Recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	For the reasons foreseen in the 8.1. Recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company, but the information on the termination and other payments is publicly announced in the Company's annual report.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	For the reasons foreseen in the 8.1. Recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company.
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	For the reasons foreseen in the 8.1. Recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.	No	For the reasons foreseen in the 8.1. Recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company. Nevertheless in the annual reports prepared and publicly announced by the Company in compliance with the legal acts orders, the Company announces information about the remuneration for the members of the Supervisory board, Management board, administration (Manager, Chief accountant).

8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	The Company does not use schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		

8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company follows all the orders foreseen in the laws for the stakeholders' opportunities to participate in the management of the Company, but at this moment no any stakeholders group, having the right determined by the laws to participate in the management of the Company, is not realized by the order determined in the law.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Yes	Information, provided in this recommendation, Company announces through the Vilnius Stock Exchange used information dissemination system and places on the Company's website, daily newsletter "Kauno diena", specialized zone of Baltic News Service (BNS).

10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company information through the Vilnius Stock Exchange used information dissemination system presents simultaneously in Lithuanian and English languages as it possible. The received information Stock Exchange places on its website and trading system assuring simultaneous presentation of this information to all. The Company strives to announce the information before or after a trading session on the Vilnius Stock Exchange and at the same time to present it to all the markets in which there is trade in the Company's stocks. The Company does not provide the information which can have influence on the price of its issued stocks on comments, interview and other ways till this information is publicly announced through the Stock Exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The Company disseminates information by placing it on the Company's website in Lithuanian language.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	All the information provided in this recommendation is placed on the Company's website, except the information on the changes in the price of the Company's shares on the Stock Exchange because this information is publicly placed on the Vilnius Stock Exchange website and it can be reached by all the interested persons.
Principle XI: The selection of the company's auditor The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The candidature of the Company's audit company for the shareholders meeting if offered by the Management board in compliance with the results of the public competition.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The information provided in the recommendation was not presented to the shareholders because after the confirmation of the Code there was no shareholders meeting in which the audit company would be elected which would provide audit services to the Company. In the shareholders meeting on 26 April, 2006 the audit company which would make the financial accountability audit for the 2006-2008 period was confirmed.

Balance sheets

	Notes	Group As of 31 December 2007	Group As of 31 December 2006	Company As of 31 December 2007	Company As of 31 December 2006
ASSETS					
Non-current assets					
Intangible assets	3	2,511	2,114	2,448	2,089
Property, plant and equipment	4				
Land and buildings		29,112	29,489	27,469	27,791
Structures and machinery		110,136	101,940	110,094	101,875
Vehicles		1,348	1,215	1,113	1,135
Equipments and tools		8,035	5,892	7,939	5,790
Other property, plant and equipment		2,016	2,406	2,016	2,406
Construction in progress and prepayments		8,204	10,122	8,204	10,122
Total property, plant and equipment		158,851	151,064	156,835	149,119
Non-current financial assets					
Investments into subsidiaries	1	-	-	6,518	6,518
Non-current accounts receivable	5	117	1,441	117	1,441
Other financial assets	6	433	433	433	433
Total non-current financial assets		550	1,874	7,068	8,392
Total non-current assets		**161,912**	**155,052**	**166,351**	**159,600**
Current assets					
Inventories and prepayments					
Inventories	7	6,531	8,645	6,364	8,568
Prepayments		463	451	446	436
Total inventories and prepayments		6,994	9,096	6,810	9,004
Current accounts receivable	8				
Trade receivables		37,884	34,531	37,606	34,238
Other receivables		3,551	4,009	3,567	4,072
Total accounts receivable		41,435	38,540	41,173	38,310
Cash and cash equivalents	9	4,886	4,466	4,864	4,436
Total current assets		**53,315**	**52,102**	**52,847**	**51,750**
Total assets		**215,227**	**207,154**	**219,198**	**211,350**

(cont'd on the next page)

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

Balance sheets (cont'd)

	Notes	Group As of 31 December 2007	Group As of 31 December 2006	Company As of 31 December 2007	Company As of 31 December 2006
EQUITY AND LIABILITIES					
Equity					
Share capital	1	118,310	118,310	118,310	118,310
Legal reserve	10	11,373	3,634	11,323	3,634
Other reserve	10	163	-	-	-
Retained earnings (deficit)					
Net profit (loss) for the current year		(8,520)	5,907	(8,515)	9,360
Net profit (loss) for the previous years		(3,666)	(1,671)	-	(1,671)
Total retained earnings (deficit)		(12,186)	4,236	(8,515)	7,689
Total equity		**117,660**	**126,180**	**121,118**	**129,633**
Liabilities					
Non-current liabilities					
Non-current borrowings	11	23,039	18,009	23,039	18,009
Financial lease obligations	12	181	-	37	-
Other accounts payable		824	-	824	-
Deferred income tax liability	20	909	2,754	1,578	3,423
Grants (deferred income)	13	10,503	7,935	10,503	7,935
Total non-current liabilities		**35,456**	**28,698**	**35,981**	**29,367**
Current liabilities					
Current portion of non-current borrowings and financial lease	11, 12	8,772	7,692	8,726	7,692
Current borrowings	11	21,020	14,177	21,020	14,177
Trade payables	14	28,181	26,038	28,424	26,403
Advances received		753	873	753	873
Payroll-related liabilities		2,087	1,717	1,936	1,665
Taxes payable		994	948	936	876
Income tax payable		-	676	-	598
Other current liabilities		304	155	304	66
Total current liabilities		**62,111**	**52,276**	**62,099**	**52,350**
Total liabilities		**97,567**	**80,974**	**98,080**	**81,717**
Total equity and liabilities		**215,227**	**207,154**	**219,198**	**211,350**

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

General Manager	Aleksandras Sigitas Matelionis		29 February 2008
Chief Accountant	Violeta Staškūnienė		29 February 2008

Income statements

	Notes	Group: As of 31 December 2007	Group: As of 31 December 2006	Company: As of 31 December 2007	Company: As of 31 December 2006
Operating income					
Income from sales	15	169,528	183,734	168,003	183,224
Other operating income	18	1,319	3,704	1,370	8,464
Total operating income		**170,847**	**187,438**	**169,373**	**191,688**
Operating expenses	16				
Fuel and heat acquired		(112,195)	(112,894)	(112,195)	(112,894)
Salaries and social security		(22,989)	(26,017)	(19,966)	(24,543)
Raw materials		(2,356)	(3,407)	(2,013)	(3,352)
Taxes other than income tax		(3,409)	(4,085)	(3,354)	(4,066)
Electricity		(3,976)	(3,804)	(3,956)	(3,804)
Depreciation and amortisation		(20,540)	(18,560)	(20,389)	(18,497)
Repairs and maintenance		(2,807)	(755)	(2,804)	(755)
Water		(801)	(1,069)	(787)	(1,069)
Change in allowance for accounts receivable		1,133	847	1,133	847
Change in allowance for inventories		8	324	8	324
Maintenance of heating systems	1	-	-	(2,801)	(1,995)
Petrašiūnai power plant operator expenses	1	(2,193)	(967)	(2,193)	(967)
Other expenses	17	(9,363)	(11,413)	(8,791)	(10,942)
Other activities expenses	18	(1,025)	(1,198)	(986)	(1,491)
Total operating expenses		**(180,513)**	**(182,998)**	**(179,094)**	**(183,204)**
Profit (loss) from operations		**(9,666)**	**4,440**	**(9,721)**	**8,484**
Financial and investment activities	19				
Income from financial and investment activities		1,314	1,946	1,364	1,946
Expenses from financial and investment activities		(2,008)	(1,347)	(2,003)	(1,347)
Financial and investment activities, net		**(694)**	**599**	**(639)**	**599**
Profit (loss) before tax		**(10,360)**	**5,039**	**(10,360)**	**9,083**
Income tax	20	1,840	868	1,845	277
Net profit (loss)		**(8,520)**	**5,907**	**(8,515)**	**9,360**
Basic earnings (loss) per share (litas)	21	(0.43)	0.30		

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

General Manager	Aleksandras Sigitas Matelionis		29 February 2008
Chief Accountant	Violeta Staškūnienė		29 February 2008

Statements of changes in equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained (deficit)	Total
Balance as of 31 December 2005		**118,310**	**-**	**-**	**1,963**	**120,273**
Transferred to reserves	10	-	3,634	-	(3,634)	-
Net profit for the year		-	-	-	5,907	5,907
Balance as of 31 December 2006		**118,310**	**3,634**	**-**	**4,236**	**126,180**
Transferred to reserves	10	-	7,739	163	(7,902)	-
Net (loss) for the year		-	-	-	(8,520)	(8,520)
Balance as of 31 December 2007		**118,310**	**11,373**	**163**	**(12,186)**	**117,660**

Company	Notes	Share capital	Legal reserve	Other reserve	Retained (deficit)	Total
Balance as of 31 December 2005		**118,310**	**-**	**-**	**1,963**	**120,273**
Transferred to reserves	10	-	3,634	-	(3,634)	-
Net profit for the year		-	-	-	9,360	9,360
Balance as of 31 December 2006		**118,310**	**3,634**	**-**	**7,689**	**129,633**
Transferred to reserves	10	-	7,689	-	(7,689)	-
Net (loss) for the year		-	-	-	(8,515)	(8,515)
Balance as of 31 December 2007		**118,310**	**11,323**	**-**	**(8,515)**	**121,118**

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

General Manager	Aleksandras Sigitas Matelionis	29 February 2008
Chief Accountant	Violeta Staškūnienė	29 February 2008

Cash flow statements

	Group		Company	
	As of 31 December 2007	As of 31 December 2006	As of 31 December 2007	As of 31 December 2006
Cash flows from (to) operating activities				
Net profit (loss)	(8,520)	5,907	(8,515)	9,360
Adjustments for non-cash items:				
Depreciation and amortisation	21,544	19,610	21,365	19,548
Change in allowance for accounts receivable	(1,133)	(847)	(1,133)	(847)
(Gain) from sale and write-off of property, plant and equipment and shares	-	(2,344)	-	(2,344)
Change in allowance for inventories	(8)	(324)	(8)	(324)
Income tax expenses (income)	(1,845)	(868)	(1,845)	(277)
(Gain) from revaluation of non-current assets transferred to subsidiary	-	-	-	(4,462)
Accruals	241	(319)	232	(401)
(Amortisation) of grants	(802)	(891)	(802)	(891)
Interest expenses	1,989	1,315	1,984	1,315
Elimination of other financial and investing activity results	(1,295)	(1,914)	(1,345)	(1,914)
	10,171	19,325	9,933	18,763
Changes in working capital:				
Decrease (increase) in inventories	2,122	(3,433)	2,212	(3,356)
(Increase) decrease in prepayments	(12)	13	(10)	28
(Increase) decrease in trade receivables	(2,220)	7,806	(2,235)	8,099
Decrease in other receivables	1,946	2,014	1,946	1,951
(Decrease) in non-current trade payable	-	(71)	-	(71)
Increase in non-current other payable	824	-	824	-
Increase in current trade payables and advances received	2,023	1,822	1,901	2,187
Increase (decrease) in payroll-related liabilities	129	6	39	(46)
(Decrease) increase in other liabilities to budget	(920)	84	(782)	12
Increase (decrease) in other liabilities	89	(172)	178	(141)
Net cash flows from operating activities	**14,152**	**27,394**	**14.006**	**27,426**

(cont'd on the next page)

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

Cash flow statements (cont'd)

	Group		Company	
	As of 31 December 2007	As of 31 December 2006	As of 31 December 2007	As of 31 December 2006
Cash flows from (to) investing activities				
(Acquisition) of tangible and intangible assets	(26,078)	(32,347)	(26,028)	(32,314)
(Acquisition) of non-current investments	-	-	-	(10)
Proceeds from sale of tangible and intangible assets and investments	23	3,978	24	3,931
Penalty interest and fines received	1,301	1,761	1,301	1,761
Dividends received	-	-	50	-
Increase in cash flows from (to) non-current accounts receivable	139	329	139	291
Interest received	13	8	13	8
Net cash flows from (to) investing activities	**(24,602)**	**(26,271)**	**(24,501)**	**(26,333)**
Cash flows from (to) financing activities				
Proceeds from loans	18.301	10,295	18.301	10,313
(Repayment) of loans	(5.432)	(9,604)	(5.432)	(9,622)
Interest (paid)	(1,928)	(1,649)	(1,924)	(1,649)
Financial lease (payments)	(52)	-	(3)	-
Penalty interest and fines (paid)	(19)	(32)	(19)	(32)
Net cash flows from (to) financing activities	**10,870**	**(990)**	**10,923**	**(990)**
Net increase in cash and cash equivalents	**420**	**133**	**428**	**103**
Cash and cash equivalents at the beginning of the year	**4,466**	**4,333**	**4,436**	**4,333**
Cash and cash equivalents at the end of the year	**4,886**	**4,466**	**4,864**	**4,436**

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

General Manager	Aleksandras Sigitas Matelionis		29 February 2008
Chief Accountant	Violeta Staškūnienė		29 February 2008

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.

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 Main List of the Vilnius Stock Exchange.

As of 31 December 2007 and 2006 the shareholders of the Company were as follows:

	Number of shares owned	%age of ownership
Municipality of Kaunas city	16,954,892	85.99
Municipality of Kaunas district	1,606,168	8.14
The municipality board of Jurbarkas district	443,810	2.25
Other minor shareholders	713,512	3.62
	19,718,382	100.00

All the shares with a par value of LTL 6 each are ordinary shares and were fully paid as of 31 December 2007 and 2006. The share capital did not change in 2007 and 2006. The Company did not hold its own shares in 2007 and 2006.

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

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 statutory capital of which was LTL 10 thousand. 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.

On 30 August 2006 the Company increased the share capital of UAB Pastatų Priežiūros Paslaugos to LTL 6,518 thousand by a contribution in-kind. The net book value of the transferred assets amounted to LTL 2,046 thousand (Note 4). After evaluation of the transferred assets by independent valuators, the difference of LTL 4,462 thousand between the net book and fair value of the transferred assets was accounted for under other operating income caption in the Company's income statement (Note 18).

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

Company	Registration address	Share of the stock 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	(27)	6,769	Maintenance of heating systems

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

1 General information (cont'd)

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.

In 2003 the Company sold part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacinė 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 establishes that the purchase price of heat energy from KTE will not increase during the first 5 years from the date of signing the contract. In accordance with the Law amending the Heating Law No. X-1329 of 20 November 2007, starting May 2008 KTE sale price of heat energy has to be approved by the Commission, accordingly the Company's purchase price of heat energy from KTE will be approved by 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. The employees of the Company that used to work at a subdivision of Petrašiūnai power plant were dismissed from the Company and hired by UAB Energijos Sistemų Servisas. On 22 June 2006 the Company signed a lease agreement with UAB Kauno Termofikacinė 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.

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

The Company's total heat and electricity generation capacity is 538 MW and 8.75 MW, respectively, out of which 265.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. Total Company's power generation capacity is 546.75 MW.

In 2007 the average number of employees at the Group was 721 (905 employees in 2006). In 2007 the average number of employees at the Company was 624 (780 employees in 2006).

The Company's management approved these financial statements on 29 February 2008. The shareholders of the Company have a statutory right to either approve or not approve the financial statements after the Company's management approves these financial statements.

2 Accounting principles

2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (hereinafter EU).

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures.
- Amendments to IAS 1 Capital Disclosures.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

IFRS 7 *Financial Instruments: Disclosures.* This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 *Presentation of Financial Statements.* This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

IFRIC 7 *Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies".* This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. The interpretation had no impact on the financial position or performance of the Group.

IFRIC 8 *Scope of IFRS 2.* This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are not issued to employees, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 *Reassessment of Embedded Derivatives.* IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 *Interim Financial Reporting and Impairment.* The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 2 Share-based Payments – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes, therefore this IFRS will not have significant impact for Group's accounting.
- IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009 once adopted by EU). IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.
- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009, adopted by EU on 21 October 2007). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.
- IAS 23 Borrowing Costs – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.
- IAS 27 Consolidated and Separate Financial Statements – Revised (effective for annual periods beginning on or 1 July 2009 once adopted by the EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognised on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or 1 July 2009 once adopted by the EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognised, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007, adopted by EU on 1 June 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by the EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.
- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

The Group and the Company expect that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IFRS 8 Operating Segments, IAS 1 Presentation of Financial Statements – Revised, IAS 23 Borrowing Costs – Revised and IFRIC 12 Service Concession Agreements.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group has preliminary assessed that the operating segments were the same as the business segments identified under IAS 14 *Segment Reporting*.

IAS 1 Presentation of Financial Statements – Revised

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced. The Group is still evaluating the impact of the adoption of this revision.

IAS 23 Borrowing Costs – Revised

Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed. The Group cannot currently quantify the effect of this change.

IFRIC 12 *Service Concession Agreements*

This interpretation applies to service concession operators and explains how to account for obligations undertaken and rights received in service concession agreements. The Group is still evaluating the impact of the adoption of this interpretation.

The Group will apply new standards and interpretations when they are effective

2 Accounting principles (cont'd)

2.2. Measurement and presentation currency

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

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

The consolidated financial statements of the Group include AB Kauno Energija and it's subsidiary. 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 and/or is able 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 income statement.

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 of the acquiree's identifiable assets, liabilities and contingent liabilities. The goodwill is stated at cost, less impairment losses in the financial statements. Negative goodwill is recognised as income in the income statement for the reporting period. The goodwill is presented in the stand alone financial statements of the Company in the same line as the investment into the acquired company. In the consolidated financial statements goodwill related to consolidated subsidiaries is presented under the intangible assets caption.

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

Companies acquired or sold during a year are included into the financial statements from the date of acquisition or until the date of sale.

Inter-company balances and transactions, including unrealised profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared on the basis of the same accounting principles applied to similar transactions and other events under similar circumstances.

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

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 and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives (3 - 4 years).

<u>Licenses</u>

Amounts paid for licenses are capitalised and then amortised over useful live (3 – 4 years).

<u>Software</u>

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

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

2 Accounting principles (cont'd)

2.5. Accounting for emission rights

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

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

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

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

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 income statement.

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 income statement 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 - 60
Vehicles	3 - 10
Equipment and tools	2 - 20
Other non-current assets	2 - 30

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.

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.

Assets temporarily not in use in the Group's and the Company's operations are accounted for under the other property, plant and equipment caption. Some of these assets are leased for the value not less than their depreciation. Depreciation for assets that are not in use is calculated.

2 Accounting principles (cont'd)

2.7. Financial instruments

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised as a separate component of equity 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 equity is included in the income statement. 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. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the 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. Technological fuel is accounted for using the weighted average method. The cost of finished goods includes the applicable allocation of fixed and variable costs. Unrealisable inventory is written off.

2 Accounting principles (cont'd)

2.9. 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.

2.10. Borrowings

Borrowing costs are expensed as incurred.

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.

2.11. 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 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 statement of income 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.

2.12. 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 Accounting principles (cont'd)

2.13. 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 released to income in equal annual amounts over the expected useful life of related asset. In the income statement, a relevant expense account is reduced by the amount of grant amortisation.

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.

2.14. Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

Standard income tax rate applied to the Company is 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies had to pay an additional 4% tax calculated based on the income tax principles, and for the following year a 3% tax starting from 1 January 2007. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and (or) derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and (or) derivative financial instruments can only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the liability method on temporary differences. 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.

2.15. 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.

Income from overdue interest is recognised upon receipt.

2.16. 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 Accounting principles (cont'd)

2.17. 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 income statement. Such balances denominated in foreign currencies are translated at period-end exchange rates.

2.18. 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 in the income statement. 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 income statement. 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 equity 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 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 income statement. 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 income statement as impairment losses. For evaluation of impairment of assets the entire Company is considered one cash generating unit.

2 Accounting principles (cont'd)

2.19. 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.

Judgments

In the process of applying the Group's and the Company's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Finance Lease Commitments–Group and Company as Lessee
The Group and the Company has entered into leases contracts on vehicles. The Group and the Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as finance leases.

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. Further details are given in Note 2.

Impairment of non-financial assets
The Group and the Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. 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.

Deferred Tax Assets
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 20.

2.20. Segments

The activities of the Group and the Company are organised in one major business and geographical segment.

2.21. 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 or economic benefits is probable.

2 Accounting principles (cont'd)

2.22. 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.

2.23. Offsetting and comparative figures

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

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

3 Intangible assets

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

	Group	Company
	Patents, licenses	
Cost:		
Balance as of 31 December 2005	3,194	3,194
Additions	869	842
Balance as of 31 December 2006	4,063	4,036
Additions	1,265	1,217
Balance as of 31 December 2007	5,328	5,253
Amortisation:		
Balance as of 31 December 2005	1,331	1,331
Charge for the year	618	616
Balance as of 31 December 2006	1,949	1,947
Charge for the year	868	858
Balance as of 31 December 2007	2,817	2,805
Net book value as of 31 December 2007	**2,511**	**2,448**
Net book value as of 31 December 2006	**2,114**	**2,089**
Net book value as of 31 December 2005	**1,863**	**1,863**

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

Part of the non-current intangible assets of the Group and the Company with the acquisition cost of LTL 1,077 thousand as of 31 December 2007 (LTL 707 thousand as of 31 December 2006) were fully amortised but were still in active use.

4 Property, plant and equipment

Movement of property, plant and equipment for the current and prior reporting periods is as follows:

Group	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Other property, plant and equipment	Construction in progress and prepayments	Total
Cost:							
Balance as of 31 December 2005	52,676	287,326	4,495	8,776	5,812	2,757	361,842
Additions	499	16,997	358	919	1	16,986	35,760
Disposals and write-offs	(685)	(6,872)	(693)	(123)	(104)	(190)	(8,667)
Reclassifications	(116)	6,019	(95)	942	2,681	(9,431)	-
Balance as of 31 December 2006	52,374	303,470	4,065	10,514	8,390	10,122	388,935
Additions	114	13,539	536	655	58	13,584	28,486
Disposals and write-offs	(7)	(2,149)	(231)	(124)	(10)	-	(2,521)
Reclassifications	593	12,778	122	3,415	(1,406)	(15,502)	-
Balance as of 31 December 2007	53,074	327,638	4,492	14,460	7,032	8,204	414,900
Accumulated depreciation and impairment losses:							
Balance as of 31 December 2005	22,385	194,153	3,203	3,272	3,911	-	226,924
Charge for the year	1,092	15,864	391	1,468	177	-	18,992
Disposals and write-offs	(342)	(6,793)	(692)	(120)	(98)	-	(8,045)
Reclassifications	(250)	(1,694)	(52)	2	1,994	-	-
Balance as of 31 December 2006	22,885	201,530	2,850	4,622	5,984	-	237,871
Charge for the year	1,085	17,002	426	1,912	251	-	20,676
Disposals and write-offs	(5)	(2,136)	(223)	(124)	(10)	-	(2,498)
Reclassifications	(3)	1,106	91	15	(1,209)	-	-
Balance as of 31 December 2007	23,962	217,502	3,144	6,425	5,016	-	256,049
Net book value as of 31 December 2007	**29,112**	**110,136**	**1,348**	**8,035**	**2,016**	**8,204**	**158,851**
Net book value as of 31 December 2006	**29,489**	**101,940**	**1,215**	**5,892**	**2,406**	**10,122**	**151,064**
Net book value as of 31 December 2005	**30,291**	**93,173**	**1,292**	**5,504**	**1,901**	**2,757**	**134,918**

4 Property, plant and equipment (cont'd)

Company	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Other property, plant and equipment	Construction in progress and prepayments	Total
Cost:							
Balance as of 31 December 2005	52,676	287,326	4,495	8,776	5,812	2,757	361,842
Additions	499	16,997	359	911	1	16,986	35,753
Disposals and write-offs	(684)	(6,825)	(693)	(123)	(104)	(190)	(8,619)
Assets transferred to subsidiary	(2,543)	(595)	(433)	(212)	(6)	-	(3,789)
Reclassifications	(116)	6,018	(95)	942	2,682	(9,431)	-
Balance as of 31 December 2006	49,832	302,921	3,633	10,294	8,385	10,122	385,187
Additions	114	13,531	332	628	58	13,584	28,247
Disposals and write-offs	(6)	(2,149)	(231)	(124)	(10)	-	(2,520)
Reclassifications	592	12,777	122	3,417	(1,406)	(15,502)	-
Balance as of 31 December 2007	50,532	327,080	3,856	14,215	7,027	8,204	410,914
Accumulated depreciation and impairment:							
Balance as of 31 December 2005	22,385	194,153	3,203	3,272	3,911	-	226,924
Charge for the year	1,068	15,851	381	1,455	177	-	18,932
Disposals and write-offs	(342)	(6,793)	(692)	(120)	(98)	-	(8,045)
Accumulated depreciation of assets transferred to subsidiary	(820)	(471)	(342)	(105)	(5)	-	(1,743)
Reclassifications	(250)	(1,694)	(52)	2	1,994	-	-
Balance as of 31 December 2006	22,041	201,046	2,498	4,504	5,979	-	236,068
Charge for the year	1,029	16,969	377	1,881	251	-	20,507
Disposals and write-offs	(4)	(2,136)	(222)	(124)	(10)	-	(2,496)
Reclassifications	(3)	1,107	90	15	(1,209)	-	-
Balance as of 31 December 2007	23,063	216,986	2,743	6,276	5,011	-	254,079
Net book value as of 31 December 2007	**27,469**	**110,094**	**1,113**	**7,939**	**2,016**	**8,204**	**156,835**
Net book value as of 31 December 2006	**27,791**	**101,875**	**1,135**	**5,790**	**2,406**	**10,122**	**149,119**
Net book value as of 31 December 2005	**30,291**	**93,173**	**1,292**	**5,504**	**1,901**	**2,757**	**134,918**

4 Property, plant and equipment (cont'd)

The depreciation charge of the Group's and Company's property, plant and equipment for 2007 amounts to LTL 20,676 thousand and LTL 20,507 thousand, respectively (LTL 18,992 thousand and LTL 18,932 thousand in the year 2006). The amounts of LTL 19,672 thousand and LTL 19,531 thousand for the year 2007 (LTL 17,942 thousand and LTL 17,881 thousand for the year 2006), respectively, were included into operating expenses in the Group's and the Company's income statement. The remaining amounts were included into other expenses caption.

Part of the property, plant and equipment of the Company with acquisition cost of LTL 45,634 thousand were fully depreciated as of 31 December 2007 (LTL 21,014 thousand as of 31 December 2006) but were still in active use.

As of 31 December 2007 the major part of the Group' s and Company's construction in progress consisted of reconstruction works.

As of 31 December 2007 property, plant and equipment of the Group and the Company with the net book value of LTL 79,042 thousand (LTL 64,017 thousand as of 31 December 2006) was pledged to banks as a collateral for loans (Note 11).

5 Non-current accounts receivable

	2007	**2006**	**2007**	**2006**
Long-term loans granted to the Company's employees	104	340	104	340
Long-term accounts receivable from UAB Nepriklausomos Energijos Paslaugos and UAB Ežerėlio Durpės	-	1,061	-	1,061
Other	13	40	13	40
	117	1,441	117	1,441

Long-term loans granted to the employees of the Company are non-interest bearing and mature from 2008 to 2023. These loans are accounted for at discounted value using 6% interest rate.

Long-term receivable from UAB Nepriklausomos Energijos Paslaugos and UAB Ežerėlio Durpės represents a receivable for sold inventories. The receivable matures in 2008, bears no interest rate and is classified as current accounts receivable as of 31 December 2007.

All non-current accounts receivable as of 31 December 2007 and 2006 are neither past due nor impaired.

6 Other financial assets

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
Ordinary shares - unquoted	433	433	433	433

Carrying value of the unquoted ordinary shares is estimated using recent arm's length market transactions.

7 Inventories

	Group		Company	
	2007	2006	2007	2006
Spare parts	2,202	1,922	2,202	1,922
Technological fuel	3,416	5,904	3,416	5,904
Materials	1,769	1,683	1,602	1,606
Total:	7,387	9,509	7,220	9,432
Valuation allowance at the end of the year	(856)	(864)	(856)	(864)
	6,531	8,645	6,364	8,568

The acquisition cost of the Group's and the Company's slow moving inventories accounted for at net realisable value as of 31 December 2007 amounted to LTL 856 thousand (LTL 864 thousand as of 31 December 2006).

Changes in the valuation allowance for inventories for the year 2007 and 2006 was included into change in inventories allowance caption in the Group's and the Company's income statement.

8 Current accounts receivable

	Group		Company	
	2007	2006	2007	2006
Trade receivables, gross	58,283	56,901	58,005	56,608
Less: impairment of doubtful receivables	(20,399)	(22,370)	(20,399)	(22,370)
Trade receivables, net	37,884	34,531	37,606	34,238

Change in impairment of doubtful receivables in 2007 and 2006 is included into the change in allowance for doubtful receivables caption in the Group's and the Company's income statement.

Other receivables of the Group and the Company as of 31 December 2007 amounted to LTL 3,551 thousand and LTL 3,567 thousand, respectively (as of 31 December 2006 – respectively LTL 4,009 thousand and LTL 4,072 thousand). As of 31 December 2007 the major part of other receivables consist of the receivables from sold inventories to UAB Nepriklausomos Energijos Paslaugos and UAB Ežerėlio Durpės and VAT receivable.

The ageing analysis of the Group's other receivables as of 31 December 2007 and 2006 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but not impaired					Total
		Less than 60 days	60 – 150 days	151 – 240 days	241 – 360 days	More than 360 days	
2006	2,676	-	-	-	-	-	2,676
2007	2,550	1	-	-	8	-	2,559

8 Current accounts receivable (cont'd)

The ageing analysis of the Company's trade receivables as of 31 December 2007 and 2006 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but not impaired					Total
		Less than 60 days	60 – 150 days	151 – 240 days	241 – 360 days	More than 360 days	
2006	2,739	-	-	-	-	-	2,739
2007	2,566	1	-	-	8	-	2,575

Trade receivables are non-interest bearing and are generally on 30 – 45 days terms.

As of 31 December 2007 trade receivables with the nominal value of LTL 20,399 thousand (as of 31 December 2006 – LTL 22,370 thousand) were impaired and fully provided for.

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

	Individually impaired	Collectively impaired	Total
Balance as of 31 December 2005	**1,392**	**21,987**	**23,379**
Unused amounts reversed	-	(1,009)	(1,009)
Balance as of 31 December 2006	**1,392**	**20,978**	**22,370**
Unused amounts reversed	-	(1,971)	(1,971)
Balance as of 31 December 2007	**1,392**	**19,007**	**20,399**

In 2007 the Group and the Company wrote off LTL 957 thousand (in 2006 – LTL 480 thousand) of bad debts. In 2007 the Group and the Company also recovered LTL 119 thousand of bad debts (in 2006 – LTL 318 thousand), which were written off in the previous periods.

The ageing analysis of the Group's trade receivables as of 31 December 2007 and 2006 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 60 days	60 – 150 days	151 – 240 days	241 – 360 days	More than 360 days	
2006	18,350	5,839	837	4,071	4,201	1,233	34,531
2007	28,027	6,363	643	1,085	604	1,162	37,884

The ageing analysis of the Company's trade receivables as of 31 December 2007and 2006 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 60 days	60 – 150 days	151 – 240 days	241 – 360 days	More than 360 days	
2006	18,124	5,772	837	4,071	4,201	1,233	34,238
2007	27,801	6,358	624	1,085	576	1,162	37,606

9 Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
Cash at bank	1,472	1,090	1,450	1,060
Cash on hand	13	17	13	17
Cash in transit	3,401	3,359	3,401	3,359
	4,886	4,466	4,864	4,436

The Group's and the Company's accounts in national currency in banks amounting to LTL 865 thousand (2006 – LTL 881 thousand) are pledged as collateral for the loans (Note 11).

10 Reserves

Legal and other reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit calculated in accordance with IFRS are compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends but can be used to cover any future losses. On 14 May 2007 based on the decision of the shareholders the Company transferred an amount of LTL 7,689 thousand (on 28 April 2006 – LTL 3,634 thousand) to the legal reserve. On 14 March 2007 based on the decision of the shareholders the Subsidiary transferred an amount of LTL 50 thousand to the legal reserve and an amount of LTL 163 thousand to other reserve.

11 Borrowings

	Group		Company	
	2007	2006	2007	2006
Non-current borrowings				
Non-current borrowings	23,039	18,009	23,039	18,009
	23,039	18,009	23,039	18,009
Current borrowings				
Current portion of non-current borrowings	8,688	7,692	8,688	7,692
Current borrowings (including credit line)	21,020	14,177	21,020	14,177
	29,708	21,869	29,708	21,869
	52,747	39,878	52,747	39,878

11 Borrowings (cont'd)

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

	Group		Company	
	2007	2006	2007	2006
2007	-	7,692	-	7,692
2008	8,688	7,919	8,688	7,919
2009	15,607	7,965	15,607	7,965
2010	2,319	867	2,319	867
2011	1,910	832	1,910	832
2012	1,163	426	1,163	426
2013	668	-	668	-
2014	667	-	667	-
2015	604	-	604	-
2016	101	-	101	-
	31.727	25,701	31.727	25,701

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	
	2007	2006	2007	2006
Current borrowings	7.3	4.4	7.3	4.4
Non-current borrowings	6.7	3.9	6.7	3.9

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

	Group		Company	
	2007	2006	2007	2006
Currency of the loan				
EUR	23,610	20,581	23,610	20,581
LTL	29,137	19,297	29,137	19,297
	52,747	39,878	52,747	39,878

On 1 August 2005 the Company signed a long-term loan agreement with AB Bankas Hansabankas for the amount of LTL 5,000 thousand. The maturity date of the last portion of the loan is 1 August 2012. As of 31 December 2007 the outstanding balance of the loan amounted to LTL 3,753 thousand of which LTL 832 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Company. The loan bears 6-month VILIBOR plus 0.77% interest rate. The loan is secured by bank account in AB Bankas Hansabankas of LTL 6 thousand (2006 – LTL 8 thousand).

On 23 August 2005 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 2009. The outstanding balance of the loan amounted to EUR 5,063 thousand (the equivalent of LTL 17,481 thousand) as of 31 December 2007, of which LTL 5,180 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Company. The loan bears 6-month EUR LIBOR plus 0.4% interest rate. The loan is secured by bank account in AB SEB Bankas of LTL 858 thousand (2006 – LTL 873 thousand).

11 Borrowings (cont'd)

On 1 December 2006 the Company signed a long-term loan agreement with Nordea Bank Finland Plc. Lithuanian branch for the amount of LTL 2,090 thousand. As of 18 April 2007 the loan amount increased up to LTL 6,090 thousand. The maturity date of the last portion of the loan is 31 October 2015. As of 31 December 2007 the outstanding balance of the loan amounted to LTL 3,377 thousand, of which LTL 227 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 Company signed a long-term loan agreement with AB SEB Bankas for the amount of EUR 2,059 thousand (the equivalent of LTL 7,108 thousand). The maturity date of the last portion of the loan is 30 November 2016. As of 31 December 2007 the outstanding balance of the loan amounted to EUR 1,539 htousand (the equivalent of LTL 5,314 thousand), of which LTL 2,449 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 Company signed a long-term loan agreement with AB DnB NORD Bankas for the amount of EUR 576 thousand (the equivalent of LTL 1,989 thousand). The maturity date of the last portion of the loan is 31 December 2016. As of 31 December 2007 the outstanding balance of the loan amounted to EUR 236 thousand (the equivalent of LTL 815 thousand). The whole amount of the outstanding balance of the loan was accounted for as non-current borrowings in the financial statements of the Group and the Company. The loan bears 12-month EUR LIBOR plus 0.59% interest rate.

On 20 April 2007 the Company signed an overdraft agreement with AB Sampo Bankas for the amount of LTL 1,010 thousand, with the maturity date of 20 October 2009. As of 31 December 2007 the Company's balance of used overdraft was LTL 987 thousand. The overdraft bears 3-month VILIBOR plus 0.44% interest rate.

On 4 June 1999 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 2008. As of 31 December 2007 the Company's balances of used credit line was LTL 6,500 thousand. The credit line bears 6-month VILIBOR plus 0.6% interest rate.

On 08 July 2004 the Company signed an overdraft agreement with AB DnB NORD Bankas for the amount LTL 18,000 thousand with the maturity date of 31 May 2008. As of 31 December 2007 the Company's balance of used overdraft was LTL 14,520 thousand. The overdraft bears 6-month VILIBOR plus 0.59% 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 loans.

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	
	2007	**2006**	**2007**	**2006**
Vehicles	265	-	75	-
	265	-	75	-

As of 31 December 2007 the interest rate on the financial lease obligations is fixed and variable. Fixed interest rate is equal to 3.99% and 5.77%. The variable interest rate varies depending on 6-month EURIBOR plus 1.5%.

Financial lease payables at the year-end are denominated in EUR.

12 Financial lease obligations (cont'd)

Future minimal lease payments under the above-mentioned financial lease contracts as of 31 December 2007 are as follows:

	Group		Company	
	2007	2006	2007	2006
Within one year	96	-	41	-
From one to five years	192	-	38	-
Total financial lease obligations	288	-	79	-
Interest	(23)	-	(4)	-
Present value of financial lease obligations	265	-	75	-
Financial lease obligations are accounted for as:				
- current	84	-	38	-
- non-current	181	-	37	-

13 Grants (deferred income)

	Group		Company	
	2007	2006	2007	2006
Balance at the beginning of the reporting period	**7,935**	**4,545**	**7,935**	**4,545**
Received during the year				
Non-current assets received for free	3,370	4,281	3,370	4,281
	3,370	4,281	3,370	4,281
Amortisation and write-offs	(802)	(891)	(802)	(891)
Balance at the end of the reporting period	**10,503**	**7,935**	**10,503**	**7,935**

In 2007 the Group and the Company received for free the heating network located in Draugystės Str., Elektrėnų Str. and Partizanų Str. in Kaunas, which value at the date of transfer amounted to LTL 3,370 thousand. In 2006 the Group and the Company received for free the heating network located in Karaliaus Mindaugo Str. in Kaunas, which value at the date of transfer amounted to LTL 4,281 thousand.

14 Trade payables

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

15 Income from sales

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

	Group		Company	
	2007	2006	2007	2006
Heat energy	162,017	166,172	162,017	166,172
Maintenance of the heating and hot water supply systems of buildings	4,802	7,403	3,277	6,893
Electricity energy	2,694	2,005	2,694	2,005
Revenue from sale of emission rights	15	8,154	15	8,154
	169,528	183,734	168,003	183,224

16 Operating expenses

After the Company established the subsidiary UAB Pastatų Priežiūros Paslaugos on 1 July 2006, expenses of maintenance of heating and hot water systems are accounted for separately in the income statement. The Company had performed these services itself until the establishment of the subsidiary and the expenses were accounted for in the income statement based on their nature (Note 1).

After signing an agreement on 8 June 2006 concerning maintenance of Petrašiūnai Power Plant and assets attributed to it, these expenses are accounted for separately in the Group's and the Company's income statement. Prior to the agreement, expenses were accounted for based on the nature in the income statement in the Group's and the Company's financial statements (Note 1).

17 Other expenses

	Group		Company	
	2007	2006	2007	2006
Cash collection expenses	1,836	2,024	1,834	2,023
Debts collection expenses	1,668	1,325	1,668	1,325
Customer bills issue and delivery expenses	914	1,021	914	1,021
Equipments verification and inspection	770	843	720	823
Communication expenses	685	615	621	588
Employees related expenses	486	872	437	860
IT maintenance and related services	328	237	292	229
Rent of equipment and machinery	316	320	316	320
Insurance	312	169	312	169
Advertising expenses	287	397	274	392
Consulting expenses	262	435	218	425
Transport expenses	230	191	187	186
Membership fee	229	257	229	257
Stationery and post expenses	100	121	92	118
Charity and donation	36	1,101	16	1,101
Other expenses	904	1,485	661	1,105
	9,363	11,413	8,791	10,942

18 Other activities

	Group		Company	
	2007	2006	2007	2006
Income from other activities				
Services provided by the Company	1,118	897	1,191	1,161
Materials sold	147	373	147	407
Gain from sale of non-current assets	18	2,346	18	2,346
Revaluation of the assets transferred to subsidiary (Note 1)	-	-	-	4,462
Other	36	88	14	88
	1,319	3,704	1,370	8,464
Expenses from other operating activities				
Cost of services provided by the Company	(873)	(627)	(858)	(891)
Cost of materials sold	(90)	(201)	(90)	(248)
Loss from sale of non-current assets and shares	(18)	(4)	(18)	(4)
Other	(44)	(366)	(20)	(348)
	(1,025)	(1,198)	(986)	(1,491)
	294	2,506	384	6,973

19 Financial and investment activities, net

	Group		Company	
	2007	2006	2007	2006
Income from financial and investment activities				
Interest from late payment of accounts receivable	1,301	1,761	1,301	1,761
Bank interest receivable	13	8	13	8
Foreign currency exchange gain	-	2	-	2
Dividends received	-	-	50	-
Other	-	175	-	175
	1,314	1,946	1,364	1,946
Expenses of financial and investment activities				
Bank loans and overdrafts	(1,989)	(1,315)	(1,984)	(1,315)
Other	(19)	(32)	(19)	(32)
	(2,008)	(1,347)	(2,003)	(1,347)
	(694)	599	(639)	599

20 Income tax

	Group		Company	
	2007	2006	2007	2006
Components of the income tax expense				
Current income tax for the reporting year	5	676	-	598
Deferred income tax (income)	(1,845)	(1,544)	(1,845)	(875)
Income tax (income) recorded in income statement	(1,840)	(868)	(1,845)	(277)

Deferred income tax asset and liability was accounted for using the rate of 18% and 15% (refer to Note 2.14.):

Deferred income tax consists of:

	Group		Company	
	2007	2006	2007	2006
Deferred income tax asset				
Tax loss carry forward	1,997	-	1,997	-
Accounts receivable	3,203	4,194	3,203	4,194
Allowance for inventories	128	130	128	130
Differences of depreciation	52	37	52	37
Accruals	105	54	105	54
Deferred income tax asset before valuation allowance	5,485	4,415	5,485	4,415
Less: valuation allowance	(3,240)	(3,523)	(3,240)	(3,523)
Deferred income tax asset, net	2,245	892	2,245	892
Deferred income tax liability				
Investment incentive	(2,216)	(3,082)	(2,216)	(3,082)
Revaluation of the assets transferred to subsidiary	-	-	(669)	(669)
Differences of depreciation	(938)	(564)	(938)	(564)
Deferred income tax liabilities	(3,154)	(3,646)	(3,823)	(4,315)
Deferred income tax, net	(909)	(2,754)	(1,578)	(3,423)

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

	Group		Company	
	2007	2006	2007	2006
Income tax income (expenses) calculated at statutory rate	1,865	(957)	1,865	(1,725)
Change in deferred income tax due to change in tax rate	(144)	(223)	(144)	(46)
Non-deductible expenses	(164)	(169)	(159)	(169)
Change in valuation allowance of the deferred tax	283	2,217	283	2,217
Income tax (expenses) accounted in income statement	1,840	868	1,845	277

21 Basic earnings (loss) per share

Calculations of the basic earnings per share of the Group are presented below:

	Group	
	2007	2006
Net profit (loss)	(8,520)	5,907
Number of shares (thousand), opening balance	19,718	19,718
Number of shares (thousand), closing balance	19,718	19,718
Average number of shares (thousand)	19,718	19,718
Basic earnings (loss) per share (LTL)	(0.43)	0.30

22 Financial assets and liabilities and risk management

Credit risk

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

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

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 its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts recognised at the balance sheet date (Note 8).

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

Interest rate risk

All of the Group's and the Company's borrowings are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2007 the Group and the Company did not have financial instruments for managing the interest rate risk.

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
2007		
LTL	+15	(79)
LTL	-15	+79
2006		
LTL	+190	(758)
LTL	-190	758

22 Financial assets and liabilities and risk management (cont'd)

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 ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2007 were 0.86 and 0.75, respectively (0.99 and 0.83 as of 31 December 2006). The Company's liquidity and quick ratios as of 31 December 2007 were 0.85 and 0.75, respectively (0.99 and 0.82 as of 31 December 2006).

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2007 and 2006 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	1,580	18,226	21,769		41,575
Trade payables	18,499	7,539	-	-	26,038
Other current liabilities	40	-	-	-	40
Balance as of 31 December 2006	**20,119**	**25,765**	**21,769**	**-**	**67,653**
Interest bearing loans and borrowings	1,049	31,017	23,893	5,132	61,091
Trade payables	24,329	3,845	7	-	28,181
Other current liabilities	179	-	-	-	179
Balance as of 31 December 2007	**25,557**	**34,862**	**23,900**	**5,132**	**89,451**

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2007 and 2006 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	1,580	18,226	21,769		41,575
Trade payables	18,864	7,539	-	-	26,403
Other current liabilities	33	-	-	-	33
Balance as of 31 December 2006	**20,477**	**25,765**	**21,769**	**-**	**68,011**
Interest bearing loans and borrowings	1,040	30,972	23,739	5,132	60,883
Trade payables	24,572	3,845	7	-	28,424
Other current liabilities	179	-	-	-	179
Balance as of 31 December 2007	**25,791**	**34,817**	**23,746**	**5,132**	**89,486**

22 Financial assets and liabilities and risk management (cont'd)

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, the foreign currency risk is not incurred.

Monetary assets and liabilities denominated in local and foreign currencies as of 31 December 2007 were as follows (stated in LTL):

	Group	Company	Group	Company
	Assets		Liabilities	
LTL	46,438	46,153	60,652	60,686
EUR	-	-	23,801	23,611
Total	46,438	46,153	84,453	84,297

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 approximates 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.

23 Related parties transactions

The parties are considered related when one party has the possibility to control the other or have significant influence over the other party in making financial and operating decisions.

In 2007 and 2006 the Group and the Company did not have any significant transactions with the other companies owned by municipality of Kaunas city except for the purchases or sales of the utility services. The services provided to the companies owned by the municipality of Kaunas City were executed at market prices.

In 2007 and 2006 the related party of the Company was UAB Pastatų Priežiūros Paslaugos.

23 Related parties transactions (cont'd)

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

2007	Purchases	Sales	Receivables	Payables
UAB Pastatų Priežiūros Paslaugos	2,955	310	63	299

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

2006	Purchases	Sales	Receivables	Payables
UAB Pastatų Priežiūros Paslaugos	2,042	358	78	447

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL 778 thousand and LTL 390 thousand in 2007, respectively (LTL 520 thousand and LTL 419 thousand respectively in 2006). In 2007 and 2006 the management of the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

24 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 manage its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years end 31 December 2007 and 2006.

The Group and the Company are obliged to upkeep its equity ratio of not less than 50% of its share capital, as 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	
	2007	2006	2007	2006
Non-current liabilities (including deferred tax and grants)	35,456	28,698	35,981	29,367
Current liabilities	62,111	52,276	62,099	52,350
Liabilities	**97,567**	**80,974**	**98,080**	**81,717**
Equity	**117,660**	**126,180**	**121,118**	**129,633**
Debt* to equity ratio	**82,92%**	**64,17%**	**80,98%**	**63,04%**

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